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NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

THESIS

**CHINA'S EXPANSION INTO THE MIDDLE EAST AND
ITS EFFECTS ON U.S. FOREIGN POLICY**

by

Henry Toshihiko Saito

March 2007

Thesis Co-Advisors:

James A. Russell
Christopher P. Twomey

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**CHINA'S EXPANSION INTO THE MIDDLE EAST AND ITS EFFECTS ON U.S.
FOREIGN POLICY**

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Lieutenant, United States Navy
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Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF ARTS IN NATIONAL SECURITY AFFAIRS

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ABSTRACT

As a repercussion of the phenomenal Chinese economic growth over the past few decades, China is forced to deal with the challenge of meeting an equally rapid increase in energy demand. China realizes that its continued economic expansion is reliant on its ability to meet this growing need. Over 80% of the world's proven oil reserves located in the Middle East, and China realizes that Middle Eastern states will play a vital role in Beijing's ability to meet its energy demands in the future. As a result, China has aggressively pursued closer political, military, and economic ties with Middle Eastern states. China's actions have come in conflict with U.S. policies in the Middle East, and there currently is much debate regarding China's intentions in the Middle East. Some believe China's actions are intended to challenge U.S. power and influence in the Middle East. Others believe that China is simply acting in its economic interests. This thesis will examine China's policies and actions in the Middle East and will attempt to determine whether China is acting in the offensive realism or economic interdependence school of thought. It examines two cases in particular—Saudi Arabia and Iran—and concludes that China's behavior is closely aligned to the economic interdependence school of thought.

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EXECUTIVE SUMMARY

As a repercussion of the phenomenal Chinese economic growth over the past couple decades (with GDP growth averaging 9.6% between 1995-2005), China is forced to deal with the challenge of meeting an equally rapid increase in energy demand. China is aware that its continued economic expansion is reliant on its ability to meet its growing energy demand. With over 80% of the world's proven oil reserves located in the Middle East, China realizes that Middle Eastern states will play a vital role in China's ability to meet its energy demands in the future. As a result, China has aggressively pursued closer political, military, and economic ties with Middle Eastern states.

Two Middle Eastern states that China has taken a keen interest in are Saudi Arabia and Iran. As a result of those two countries being vital to U.S. foreign policy in the Middle East, the United States has observed the evolution of the Sino-Iranian and Sino-Saudi relationships with caution. The United States views Saudi Arabia as a vital energy source and also one of its strongest allies in the Middle East region. The United States considers Iran a rogue state that promotes instability in the Middle East, and consequently successive presidents from Carter to George W. Bush have carried out an isolation and containment policy against it.

There is little doubt that China's expanding relations with Saudi Arabia and Iran have come in conflict with U.S. policies in the Middle East. China's expanding relationship with Iran is undermining U.S. efforts aimed at isolating and containing Tehran. Additionally, some are concerned that the growing Sino-Saudi relationship may weaken the U.S.-Saudi relationship. As a result of this expansion of Chinese influence into the Middle East, many people have begun to question Chinese intentions in the area. Those who analyze Chinese intentions in the Middle East fall into two main groups. One group believes that China's actions are intended to challenge U.S. power and influence in the Middle East. Another group believes that China is simply acting in its economic interests and that its expansion into the Middle East can actually increase prospects of Sino-U.S. cooperation due to their interests becoming more aligned. These two stances are closely aligned with two schools of thought in international relations. Those that

believe China is expanding into the Middle East with the intention to challenge U.S. hegemony fit closely with John Mearsheimer's theory of offensive realism. Those that believe that China is expanding into the Middle East for economic reasons and that its expansion will increase the prospects for closer Sino-U.S. relations are aligned with the economic interdependence school of thought.

As the twenty-first century progresses, few doubt that China's global power and influence will increase. The United States will increasingly need to interact with this rising power, and in order to do so effectively, we must understand Chinese intentions and reasoning for their behavior.

I. INTRODUCTION

A. BACKGROUND AND SCOPE OF THE PROBLEM

Since the late twentieth century, China has been steadily increasing its economic, political, and military influence in the Middle East region. Much of China's drive to develop closer relations with Middle Eastern states is driven by its growing demand for energy. This thesis will examine the political, economic and military impact China's actions have had and will draw hypotheses about the future on United States foreign policy and relations with Middle East countries.

Since the latter half of the twentieth century, the United States has been deploying its military forces in the Middle East to maintain regional stability and security as well as providing maritime security for U.S. oil tankers in an effort to ensure that its oil supply is not disrupted. By playing a vital role in maintaining regional stability and by also being a major oil customer in the Middle East, the United States has developed close ties with various Middle Eastern governments to include Saudi Arabia, United Arab Emirates, Qatar, Bahrain and Kuwait.¹ Due to the ties with these Middle East countries, the United States has been able to exert political and economic influence in the region, which has resulted in favorable Middle Eastern security and oil policies for the United States.

Realizing that its domestic demand for energy will increase, China has also aggressively pursued closer economic, political and military ties with various Middle East countries in an effort to ensure adequate supplies of energy will exist in the future. The Chinese believe that the closer ties it has with its energy suppliers, the greater its energy security is enhanced. This has led to an increase in China's influence with the Middle East countries and may have come at the expense of U.S.-Middle East relations. In the future, China's expansion into the Middle East has the potential to affect the

¹ Steven A. Yetiv, *Crude Awakenings : Global Oil Security and American Foreign Policy* (Ithaca, N.Y: Cornell University Press, 2004); Robert Baer, *Sleeping with the Devil : How Washington Sold our Soul for Saudi Crude*, 1st ed. (New York: Crown, 2003); Gawdat Bahgat, *American Oil Diplomacy in the Persian Gulf and the Caspian Sea* (Gainesville: University Press of Florida, 2003); Jad Mouawad, "Why America is More Dependent than Ever on Saudi Arabia," *New York Times* Aug 6, 2005, <http://proquest.umi.com/pqdweb?did=878349431&Fmt=7&clientId=65345&RQT=309&VName=POD>.

political, economic, and military relations the United States has in the Middle East. This may in turn affect the future direction of U.S. foreign policy in the Middle East.

1. Theoretical Frameworks

There are two approaches that one might take to the U.S.-China-Middle East relations. These two approaches are closely aligned with two schools of international relations. The first approach is closely related to the offensive realism school of thought. The second approach is closely related to the economic interdependence school of thought. Each will be discussed in turn.

The international relations theory of offensive realism was developed by John J. Mearsheimer in his book *“The Tragedy of Great Power Politics.”*² Mearsheimer’s theory of offensive realism, similar to Kenneth Waltz’s theory of defensive realism, is a structural theory of international politics. The difference between Waltz and Mearsheimer is that in the eyes of an offensive realist, the international system forces great powers to maximize their relative power over other nations at every possible opportunity. Offensive realists assume that (a) the state is the main actor in foreign policy, (b) state elites have an interest in maximizing the autonomy and security of the state, and (c) states are rational actors.

Offensive realists believe that status quo powers rarely exist in global politics. They believe that since the international system creates great benefits and incentives for states to look for opportunities to gain power and influence at the expense of their rivals, states are encouraged to take advantage of those situations where the benefits outweigh the costs. By expanding their relative power over their rivals at every opportunity, the survivability and security of that great power is increased. In Mearsheimer’s words, “survival mandates aggressive behavior.”³ He also believes that a state’s ultimate goal is to be the hegemon in a system⁴; however, even if a state cannot achieve hegemony, Mearsheimer believes that states will still act offensively to gain as much power as possible because states are almost always better off with more rather than less power.⁵

² John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: Norton, 2001), 19-22.

³ Ibid., 21.

⁴ Ibid.

⁵ Ibid., 35.

The economic interdependence theory within the liberalism school of thought points to closer cooperation between nations based on economics. This theory believes that the probability of two states entering into an armed conflict between each other is inversely proportional to the degree which they are economically interdependent. In other words, the more two countries are engaged in bilateral trade, the less they are likely to go to war.⁶ Interdependence between two countries influence their political behavior in two ways: (a) because both countries are dependent on each other, they have an economic interest in continuing peaceful exchanges, and (b) the interdependence between the two countries provides a medium of communication that can be useful in preventing or resolving disagreements short of armed conflict.⁷

Currently, there is much debate and literature regarding China's role in the Middle East and its implications for U.S. foreign policy. There are two main points of view regarding this subject. Some view that China's actions in the Middle East is intended to expand Chinese power and influence at the cost of U.S. power and influence in the Middle East. This environment may eventually lead to a conflict between the two powers.⁸ The second view believes that China's increasing role in the Middle East will

⁶ Bruce M. Russett and John R. Oneal, *Triangulating Peace: Democracy, Interdependence, and International Organizations* (New York: Norton, 2001), 145.

⁷ Ibid., 139.

⁸ Flynt Leverett and Jeffrey Bader, "Managing China-U.S. Energy Competition in the Middle East," *Washington Quarterly*, Winter, 2005, 199, http://www.brookings.edu/views/articles/fellows/20051216_leverett_bader.pdf (accessed April 12, 2006).; Barton W. Marcois and Leland R. Miller, "China, U.S. Interests Conflict," *The Washington Times*, <http://washingtontimes.com/op-ed/20050324-075950-4488r.htm> (accessed February 20, 2007).; Gal Luft, "U.S., China are on Collision Course Over Oil," *Los Angeles Times* February 2, 2004, <http://www.globalpolicy.org/security/natres/oil/2004/0202collision.htm> (accessed February 20, 2007).; John Gee, "Looming Energy Crunch Fuels International Conflict and Instability," *Washington Report on Middle East Affairs*, <http://www.energybulletin.net/7435.html> (accessed February 20, 2007).; Michael T. Klare, "Revving Up the China Threat," *Asia Times*, <http://www.atimes.com/atimes/China/GJ15Ad02.html> (accessed February 28, 2007).

foster greater interdependence and cooperation between the United States, China, and Middle Eastern nations which would lead to benefits for all sides.⁹

In the first view, people believe that China's expansion into the Middle East has increased the competitive nature of the relationship between China and United States. This fits in line with the offensive realism school of thought. The United States is currently the regional hegemon in the Middle East. Recognizing two points, China has undertaken a foreign policy agenda to gain more influence and economic power in the Middle East at the cost of the hegemon. The first point is that because oil is a finite commodity and is viewed as a vital interest for both the economic and national security realms, states must take aggressive actions and gain more power over their rivals in order to secure access to greater oil resources. The second point is that China's economic prosperity, survivability, and relative position in the world is dependent on securing energy sources to meet future energy demands. In the offensive realists' eyes, China's foreign policy may challenge the United States' power and influence in the Middle East through two ways: (a) by taking actions to undermine U.S. policies in the Middle East, and (b) by aggressively pursuing closer ties with traditional U.S. allies in the Middle East with the intent to reduce U.S. power and influence in the region. Offensive Realists view Sino-U.S.-Middle East relations as a zero sum game¹⁰. Because China and the United States are looking at the same region of the world for energy and political influence, whatever economic, military and political gains China makes will be at the expense of the hegemon.

⁹ Nawaf E. Obaid and others, *The Sino-Saudi Energy Rapprochement: Implications for US National Security* (New York, NY: Gracia Group, 2002), 46, <http://www.rice.edu/energy/publications/docs/SinoSaudiStudyFinal.pdf> (accessed May 17, 2006).; John E. McLaughlin, "China, the United States, and the Middle East" *Conference Remarks* (Washington D.C.: Center for Strategic and International Studies, 2006), 5.; Shulong Chu, "The Vital Triangle: China, the United States, and the Middle East" (Washington D.C., Center for Strategic and International Studies, September 14, 2006), http://www.csis.org/media/isis/pubs/china-middle_east_summary.pdf (accessed February 20, 2007).; Jianjun Tu, "The Strategic Considerations of the Saudi-Sino Oil Deal," *The China Brief*, February 15, 2006, 3-5, http://www.jamestown.org/images/pdf/cb_006_004.pdf (accessed January 18, 2007).

¹⁰ Zero-sum game: Because resources and political/economic/military influence a state can possess are finite, whatever gains one actor makes will be at the cost of another.

Offensive realists believe China realizes that “survival mandates aggressive behavior;”¹¹ therefore, the Chinese objective for its aggressive behavior is to improve its security and survivability by gaining more power and influence in the Middle East at the cost of the United States. The United States, in response to China’s foreign policies, will be taking actions to maintain and expand their dominance over China. This confluence of Chinese and U.S. actions in the Middle East may potentially lead to a Sino-U.S. armed conflict in the Middle East.

There is another group that believes that China’s expansion into the Middle East will not lead to a competitive relationship between the United States and China, but will instead lead to greater cooperation. This group’s line of thinking is closely associated with the economic interdependence school of thought. Scholars such as John Maynard Keynes and Thomas Friedman believe that the “rise of transnational networks, nongovernmental organizations, and the rapid advancement and proliferation of communications technology throughout the world is undermining the power of states resulting in a shifting of attention away from military security toward economics and social welfare.”¹² This group of thinkers believe that despite China’s increasing influence and economic power in the Middle East, neither China nor the United States will take hostile military actions against each other for economic reasons.

People who support this view do so for three main reasons. First, since China is highly economically interdependent with the United States, Iran, and Saudi Arabia, it will seek to prevent any situation which may jeopardize the ongoing peaceful economic exchanges among them; therefore, China will seek greater cooperation with all sides in order to avoid an armed conflict in and effort to protect its economic interests. Second, as China becomes more economically interdependent with the Middle East as a result of its reliance on Middle Eastern oil, the interests of the United States and China in the Middle East region will more closely align. Because both countries are reliant on Middle Eastern oil, regional stability and the preservation of the status quo are in both countries’ economic interests. For example, as Saudi Arabia develops closer economic ties with

¹¹ Mearsheimer, *The Tragedy of Great Power Politics*, 21

¹² Stephen M. Walt, "International Relations: One World, Many Theories," *Foreign Policy*, Spring (1998), 40. (accessed May 17, 2006).

China, the common regional interests of China and the United States will grow in number. The stability, security and the survival of Saudi regime are now in the interests of both the United States and China; therefore, cooperation between the two countries should increase.¹³ Third, other issues will also continue to foster closer relations between China and the United States such as the strong economic relations between the two countries and the need for cooperation in areas such as counter-terrorism and nuclear non-proliferation which are crucial to maintaining regional stability in the Middle East.¹⁴

2. Major Question and Argument

The major question to be answered in this thesis will be whether China's policies post-1993 (when China became a net importer of oil) in the Middle East are in accordance with Mearsheimer's offensive realism theory or with the economic interdependence theory. Particularly, this thesis will attempt to answer whether (a) China is purposively undermining U.S. policies and objectives with the intent to decrease U.S. power and influence in the Middle East in order to increase its own security and survivability (offensive realism), or (b) China is seeking to influence U.S. behavior in an attempt to avoid suffering massive economic losses as a result of an armed conflict in the Middle East. Additionally, as time passes, the interests of China and the United States should more closely align due to their common regional goals will growing in number; therefore, Sino-U.S. cooperation should increase. (economic interdependence).

The thesis will also attempt to answer whether the political, military and economic relations will change between the United States and the Middle Eastern states due to China's increasing influence in the region. These effects will then be examined in the context of how it will affect America and China's relative positions in the world.

B. METHODOLOGY, THESIS ROADMAP AND SOURCES

This thesis will be using the case study method to examine this issue. The two cases that will be examined will be Iran and Saudi Arabia. These cases were picked in order to take into account various variables that may affect China's approach to Middle Eastern countries. First, these two countries were chosen because they have differing

¹³ Xiaodong Zhang, "China's Interests in the Middle East: Present and Future," *Middle East Policy* 6, no. 3 (Feb, 1999), 155,
<http://proquest.umi.com/pqdweb?did=39718199&Fmt=7&clientId=65345&RQT=309&VName=PQD>.

¹⁴ Rachel Bronson. *Thicker than Oil: America's Uneasy Partnership with Saudi Arabia*, 312.

relations with China in numerous realms (political, military and economic). While Iran and China have strong political, military, and economic relations, the Sino-Saudi relationship has not developed its military and political relationship in the same way. Secondly, these cases were picked because Saudi Arabia and Iran not only have two of the world's largest oil reserves, but are also two of the top energy exporters to China. Further highlighting Saudi Arabia and Iran's importance to China is the fact that these are the two Middle Eastern countries that China assists most in infrastructure development (see Table 1). This fact may also serve as a limitation because these two cases will not show how China's policies are geared for non-energy producing Middle Eastern countries; however, this limitation is not vital since: (a) much of the Sino-U.S. disagreements in the Middle East revolves around each side's policies toward energy producing countries, and (b) China's activities in the Middle East is driven by its desire to improve its energy security. Thirdly, while Saudi Arabia and Iran play a vital role in the U.S.'s strategy in the Middle East, each have had differing relations with the United States which may affect China's actions towards them. Because the U.S.-Saudi relationship is on friendly terms while the U.S.-Iranian relationship is on hostile terms, the U.S.'s policies towards those two countries differ greatly. While other countries in the Middle East (i.e. Oman and Yemen) and Northern Africa (i.e. Angola) provide China with a substantial amount of energy, their strategic and political value to the United States pale in comparison to that of Saudi Arabia and Iran.

By comparing two different types of cases and taking into account their varying relations with China and the United States, the case studies will more accurately analyze Chinese intentions and objectives in the Middle East.

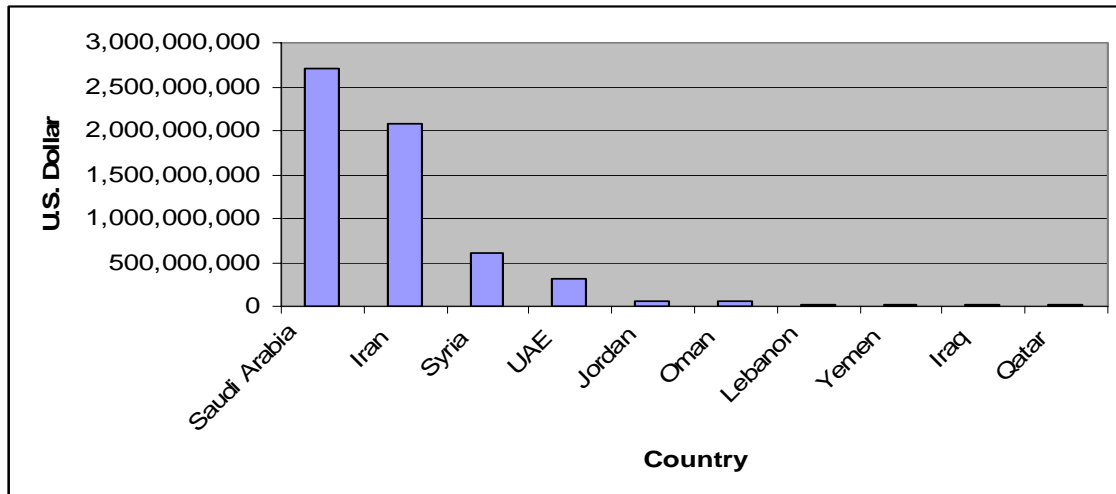


Table 1. Value of Chinese Infrastructure Projects in the Middle East
Source: Institute for National Security Studies¹⁵

Chapter II will examine the current Chinese energy situation. Since much of China's reasons for expanding into the Middle East are centered on energy and economic issues, it is vital to lay the groundwork for the case studies by examining why China needs Middle Eastern energy today, and how that is likely to increase in the future.

Chapter III will examine the Sino-U.S.-Iranian case and Chapter IV will examine the Sino-U.S.-Saudi case. Each case study will examine the economic, political and military ties between the countries involved. For the economic sphere, the following will be examined: (a) amount of oil being exported to China, (b) oil contracts Iran and Saudi Arabia have developed with Chinese companies, (c) amount of trade between China and Iran/Saudi Arabia, and (d) the amount of Chinese foreign direct investments/technology transfer/technical assistance going into Iran and Saudi Arabia. For the military sphere, the amount and nature of arms trade that exists between China, Iran and Saudi Arabia will be examined. For the political realm, the following will be looked at: (a) the frequency of Chinese diplomatic visits and the political developments due to those visits, and (b) the evolution of the Sino-Iranian and Sino-Saudi political relationship over the last few decades. Lastly, based on the findings listed above, an analysis will be conducted to determine whether China is acting along the lines of the offensive realism or economic interdependence.

¹⁵ Phillip C. Saunders, *China's Global Activism: Strategy, Drivers and Tools* (Washington D.C.: National Defense University, 2006), 49.

In the conclusion of the thesis, the two case studies will be contrasted against each other to highlight the major differences and similarities between the Sino-Iranian and Sino-Saudi relationships. The policy options analysis will be used to evaluate the options the United States may take in response to China's policies in the Middle East. A recommendation will also be made as to how the United States should proceed in the future.

Secondary sources will be primarily used for this thesis. Congressional sources to include the Government Accountability Office (GAO), Congressional Budget Office (CBO) and Congressional Research Service (CRS) will be used. Additionally, reports from various think tanks will be used such as the Brookings Institute, Carnegie Endowment, RAND Corporation, Center for Strategic and International Studies (CSIS), Center for Defense Information (CDI), Gracia group, Middle East Review of International Affairs (MERIA), Columbia International Affairs Online (CIAO). Various international media articles will also be used from the Open Source Center as well as domestic media publications such as the Wall Street Journal and New York Times. Finally, oil and energy industry publications will be used.

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II. SINO-MIDDLE EAST ENERGY BACKGROUND

A. INTRODUCTION:

When examining China's expansion into the Middle East, one must analyze what has prompted China to develop closer ties with Middle Eastern governments. Upon looking at China's reasons to expand its ties with Middle Eastern states it quickly becomes clear that its main motivation is to ensure that it has adequate energy sources in the future to support its economic growth. Energy, and specifically oil politics, has been a topic of much debate not only in the economic community but also in the political and military communities. This section will analyze: (a) China's domestic energy situation, (b) Why China looks to the Middle East for energy, and (c) U.S. views on the Chinese energy situation.

B. CHINA'S DOMESTIC ENERGY SITUATION:

As a result of China's growing energy demand, its energy security policies has recently garnered more attention in the international realm. Recently, there has been a growing amount of literature analyzing China's growing demand for energy and its energy security policies.¹⁶

Over the last two decades, China's rapid economic growth has caused its oil demand to substantially outstrip its domestic production capacity. Between 1993 and

¹⁶ Kenneth Lieberthal and Mikal Herberg, *China's Search for Energy Security* (Seattle, WA: The National Bureau of Asian Research, 2006), <http://www.nbr.org/publications/analysis/pdf/vol17no1.pdf> (accessed May 17, 2006).; Jeffrey A. Bader and Flynt L. Leverett, "Oil, the Middle East, and the Middle Kingdom," *Financial Times*, <http://www.brookings.edu/views/op-ed/fleverett/20050816.htm> (accessed April 18, 2006).; Anthony Bubalo and Mark P. Thirlwell, *Energy Insecurity: China, India and Middle East Oil* (Sydney, Australia: Lowy Institute for International Policy, 2004), <http://www.lowyinstitute.org/Publication.asp?pid=194> (accessed April 14, 2006).; John Calabrese, "China and the Persian Gulf: Energy and Security," *The Middle East Journal* 52, no. 3 (Summer, 1998), <http://proquest.umi.com/pqdweb?did=32465051&Fmt=7&clientId=65345&RQT=309&VName=PQD>.; Simon Henderson, "Chinese-Saudi Cooperation: Oil but also Missiles," *The Washington Institute for Near East Policy*, <http://www.washingtoninstitute.org/templateC05.php?CID=2460> (accessed May 18, 2006).; Jin Liangxiang, "Sino-Arab Relations: New Developments and Trends," *Middle East Policy* 11, no. 4 (Winter, 2004), <http://proquest.umi.com/pqdweb?did=772394401&Fmt=7&clientId=65345&RQT=309&VName=PQD>.; Sergei Trough, *China's Changing Oil Strategy and its Foreign Policy Implications* (Washington D.C.: The Brookings Institution, 1999), http://www.brookings.edu/fp/cnaps/papers/1999_trough.htm (accessed April 20, 2006).; Han Xiaoxing, "China-Middle East Links," *The China Business Review* 21, no. 2 (Mar/Apr, 1994), <http://proquest.umi.com/pqdweb?did=273084&Fmt=7&clientId=65345&RQT=309&VName=PQD>.; Zhang, *China's Interests in the Middle East: Present and Future*.

2002, China's oil demand grew by over 90% while its domestic production increased by only 15%.¹⁷ The demand for energy has come from numerous sources. There is no question that China's phenomenal economic growth has caused its industrial sector to consume more energy. But in addition to its industrial sector, there are two other trends that have caused China's energy demand to increase. First, there has been a steady trend of people relocating from the rural areas of China to the cities which has resulted in more people consuming energy. As more people migrate to the city, the Chinese government must take steps to accommodate them. This means that existing cities must be expanded and new cities and towns may need to be created. To expand these cities and to create new ones, much construction and infrastructure development must take place which requires a vast amount of energy.¹⁸ Additionally, people living in urban areas consume more energy than those living in rural areas. Due to a differing lifestyle (i.e. electric appliances), people living in cities consume 3.5 times more energy annually than those living in the rural areas.¹⁹ Secondly, as China's population becomes more affluent, the number of motor vehicles operating within China will increase substantially. Both these trends are shown in Table 2. SINOPEC estimates that China will have over 130 million automobiles by 2030.²⁰ In addition to these two trends, the current environmental status in China has led to an increased demand for natural gas.

¹⁷ Flynt Leverett and Jeffrey Bader, "Managing China-U.S. Energy Competition in the Middle East," *Washington Quarterly*, Winter, 2005, 189, http://www.brookings.edu/views/articles/fellows/20051216_leverett_bader.pdf (accessed April 12, 2006).

¹⁸ Research Centre for Sustainable Development, *Understanding China's Energy Policy* (Beijing, China: Chinese Academy of Social Sciences, 2006), 14, http://www.hm-treasury.gov.uk/media/5FB/FE/Climate_Change_CASS_final_report.pdf (accessed February 25, 2007).

¹⁹ *Ibid.*, 15.

²⁰ Leverett and Bader, *Managing China-U.S. Energy Competition in the Middle East*, 189.

	1990	1995	2000	2001	2002	2003
Total Population (millions)	1,143.33	1,211.21	1,267.43	1,276.27	1,284.53	1,292.27
% of Total Living in Cities	26.4	29	36.2	37.7	39.1	40.5
% of Total Ages 15-64	66.7	n/a	70.2	n/a	n/a	71.3

Motor Vehicle Drivers (millions)	16.36	35.02	76.56	84.55	93.62	106.11
Automobile Drivers (millions)	7.91	16.73	37.47	44.63	48.27	53.68

Table 2. China's Population, Indicators of Potential and Actual Drivers
Source: Congressional Budget Office – Based on China Statistical Yearbook
2004²¹

The U.S. Energy Information Administration projects China's oil demand to increase approximately 7.8% annually between 2002 and 2010²² but China's domestic oil production is not anticipated to substantially increase because China's oil reserves are: (a) tapped out, or (b) difficult to exploit.²³ This is ironic because China has traditionally viewed itself as a "vast territory with abundant resources."²⁴ China's oil production is expected to peak at 180-200 million tons by 2020 before it starts declining.²⁵ The major oil fields in the Daqing, Liaohe, Jiangnan, Dagang, Zhongyuan, and Shengli are already believed to be in the mid-late stages of production.²⁶ Although a recent oil and gas assessment report assessed that China has more than 102 billion tons of oil resources, only 26% of onshore oil have been verified which leads many people to believe that China's exploitable reserves are running short. While China has invested a substantial amount of money in new oil fields (Junggar, Tarim and Turpan-Hami oil fields in Xinjiang), the harsh climate, complex topography and fragile ecosystems have made the

²¹ Congressional Budget Office, *China's Growing Demand for Oil and its Impact on U.S. Petroleum Markets* (Washington D.C.: Congressional Budget Office, 2006), 44, <http://www.cbo.gov/ftpdocs/71xx/doc7128/04-07-ChinaOil.pdf> (accessed March 16, 2007).

²² Energy Information Administration, *International Energy Outlook 2006* (Washington D.C.: U.S. Department of Energy, 2006), 177, [http://www.eia.doe.gov/oiaf/ieo/pdf/0484\(2006\).pdf](http://www.eia.doe.gov/oiaf/ieo/pdf/0484(2006).pdf) (accessed February 24, 2007).

²³ Beijing Shidai Chao, *PRC S&T: Special Report on Energy Shortage Situation*. Beijing, China: Beijing Shidai Chao, 2004, Report Number: CPP20050330000164, <https://www.opensource.gov> (accessed February 24, 2007).

²⁴ Ibid.

²⁵ Ibid.

²⁶ Open Source Center. "China: Mapping Out New Oil Strategy to Avert Oil Crisis." Open Source Center. Report Number: CPP20030404000159, <https://www.opensource.gov> (accessed July 16, 2006).

well-drilling efforts in these oil fields not only difficult, but substantially more costly than the other oil fields in China.²⁷

As for the natural gas situation, the SDPC institute projects China's demand for natural gas to be 100bcm in 2010 and 150bcm in 2020. Due to such obstacles as inadequate internal supply and weak infrastructure, China is not expected to meet the future demands for natural gas. As a result, China must also rely on foreign sources to meet its natural gas demands.²⁸

C. WHY DOES CHINA LOOK TO THE MIDDLE EAST FOR ENERGY?

Despite the fact that China realizes the dangers of becoming reliant on limited sources of energy and is attempting to diversify its energy sources globally, the International Energy Agency (IEA) expects China to import at least 70% of its oil from the Middle East region by 2015.²⁹ China views the Middle East with great importance for three reasons. First, the Middle East has a vast amount of natural gas which China desires. Secondly, China realizes that two-thirds of the world's proven oil reserves are located in the Middle East (See Table 3). Furthermore, China recognizes that Middle Eastern nations belonging to the Organization of Petroleum Exporting Countries (OPEC) will play an increasingly vital role in supplying global energy in the future.³⁰ Thirdly, the Middle East is currently the region with the lowest production cost for oil. In Kuwait for example, a barrel of oil costs roughly \$2 to produce, while it costs \$15 a barrel in Canada.³¹ Because China views the Middle East as a crucial energy partner, it has started to develop closer political, military, and economic ties with them.

²⁷ Open Source Center. "China: Mapping Out New Oil Strategy to Avert Oil Crisis."

²⁸ Xiaojie Xu, "China and the Middle East: Cross-Investment in the Energy Sector," *Middle East Policy* 7, no. 3 (Jun, 2000), 122, <http://proquest.umi.com/pqdweb?did=56279341&Fmt=7&clientId=65345&RQT=309&VName=PQD>.

²⁹ John Calabrese, "Saudi Arabia and China Extend Ties Beyond Oil," *The China Brief*, September 27, 2005, 3, http://www.jamestown.org/images/pdf/cb_005_020.pdf (accessed January 24, 2007).

³⁰ Energy Information Administration, "Non-OPEC Fact Sheet," U.S. Department of Energy, <http://www.eia.doe.gov/emeu/cabs/nonopec.html> (accessed January 18, 2007). - The U.S. Department of Energy stated that "non-OPEC countries' smaller reserves are being depleted more rapidly than OPEC reserves, and their overall reserves-to-production ratio - an indicator of how long proven reserves would last at current production rates - is much lower (about 26 years for non-OPEC and 83 years for OPEC, based on 2004 crude oil production rates)."

³¹ Adam Piore, "Digging Deep," *Newsweek*, <http://www.msnbc.msn.com/id/5963495/site/newsweek/> (accessed July 16, 2006).

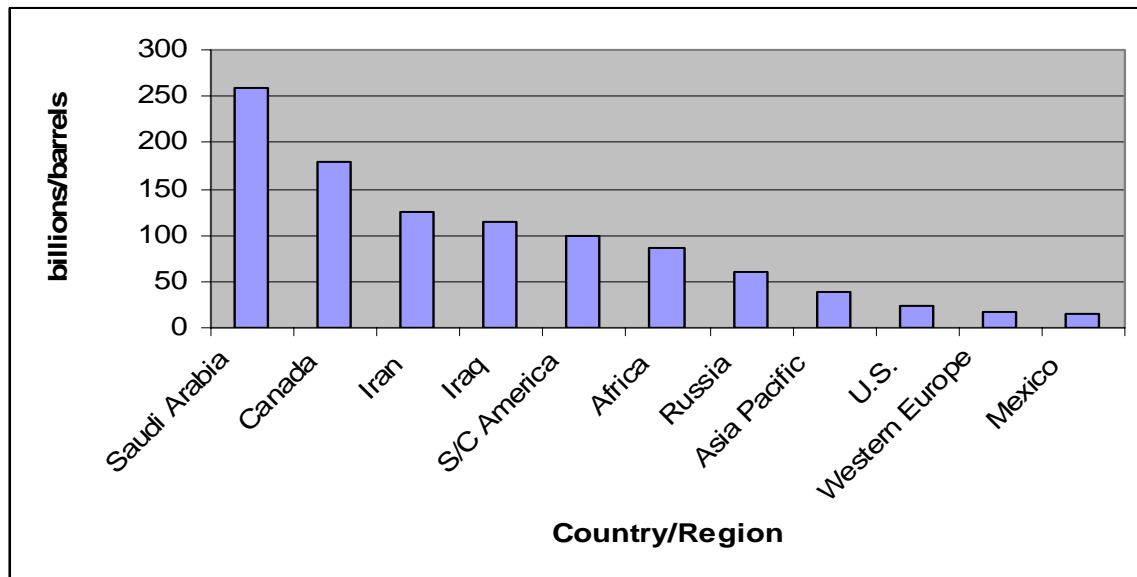


Table 3. Proven World Oil Reserves

Source: Oil and Gas Journal Volume 101.49 December 22, 2003, pp. 43-47³²

D. U.S. STANCE REGARDING CHINESE ENERGY SECURITY POLICIES

There have recently been many reports from the United States, which outline the impact China's growing demand for oil may have on the United States. A Congressional Budget Office (CBO) study in 2006 projects that China's rising demand for oil will increase the price of crude oil³³ and all petroleum products that consumers purchase globally.³⁴ China's increased demand for oil is also likely to increase the volatility of oil prices.³⁵ Because the available buffer of excess global oil production capacity is currently very small, the ability of oil producers to produce more oil in response to oil supply disruptions or surges in demand is limited and most likely will not improve in the

³² U.S. Senate - Committee on Energy and Natural Resources, *Emerging Global Energy Trends and their Implications for U.S. Need, Security and Policy Choices*, 2005, 5, <http://www.csis.org/media/isis/congress/ts050203verastro.pdf>

³³ Richard D. Farmer, *China's Growing Demand for Oil and its Impact on U.S. Petroleum Markets* (Washington D.C.: Congressional Budget Office, 2006), 31, <http://www.cbo.gov/ftpdocs/71xx/doc7128/04-07-ChinaOil.pdf> (accessed April 22, 2006). – Chinese oil demand may increase the price of oil as much as \$7-14 a barrel over the next five years.

³⁴ Ibid., 27.

³⁵ Ibid., 3.

future.³⁶ As a result, some U.S. experts are concerned that the rising price of energy may result in the weakening of the United States economy and its economic status in the world.

E. SUMMARY

In summary, China realizes that its ability to meet its future energy demands strongly hinges on international sources. Facing the reality that its energy demand will increase substantially in the future while the available buffer of global excess oil production capacity may remain limited, China has aggressively sought to develop stronger military, political, and economic ties with Middle Eastern states in order to ensure that it will have adequate access to energy in the future. China has even developed closer relations with countries that the United States considers to be rogue states. One such rogue state that China has expanded its relations with is Iran. Chapter III will examine the rapidly expanding Sino-Iranian relationship and its effect on U.S. policies and objectives.

³⁶ Farmer, *China's Growing Demand for Oil and its Impact on U.S. Petroleum Markets*, 29

III. CASE STUDY I – IRAN

A. INTRODUCTION

Over the past three decades, the Sino-Iranian relationship has changed dramatically. The growing Sino-Iranian relationship has drawn the ire of the United States because the U.S.-Iranian relations have been on hostile terms ever since the 1979 Iranian revolution.³⁷ Shortly following the Iranian revolution, the United States has led an isolation and containment policy against Iran in the hopes that the strains imposed on it (i.e., economic sanctions) would result in a “break up and gradual mellowing” of its government.³⁸ Successive Presidents following President James Carter have continued the isolation and containment policy and have also imposed additional sanctions on Iran. The U.S.-Iranian relationship hit its lowest point in January 2002 when President George W. Bush labeled Iran as part of the “Axis of Evil” during a State of Union address.³⁹

China’s entry into the Middle East and its close relations with Iran has affected how successful the U.S. policy in Iran has been on numerous fronts. The offensive realists would believe that China is looking to expand its power and influence in the Middle East through Iran, much like the role of proxy states during the Cold War. This gain in power and influence would come at the cost of the United States. The economic interdependence group would believe that China’s behavior is not driven by a desire to challenge U.S. hegemony but is driven by its need for energy. Because China views the current Iranian regime as a long term energy partner, it is seeking the regime’s survival by providing Iran with much needed economic, military and political support.

This chapter will examine how the Sino-Iranian relations have evolved in the past two decades and how China’s role has affected U.S. policy in the region. The economic

³⁷ Kenneth Katzman, *Iran: U.S. Concerns and Policy Responses* (Washington D.C.: Congressional Research Service, 2006), <http://www.fas.org/sgp/crs/mideast/RL32048.pdf> (accessed February 20, 2007). - Kenneth Katzman’s CRS Report provides excellent analysis on the history of U.S.-Iranian relations.

³⁸ Herman Franssen and Elaine Morton, "A Review of US Unilateral Sanctions Against Iran," *The Middle East Economic Survey*, August 26, 2002, 1, <http://www.mafhoum.com/press3/108E16.htm> (accessed January 24, 2007).

³⁹ Bush, President George W., "State of Union Address," White House, <http://www.whitehouse.gov/news/releases/2002/01/20020129-11.html> (accessed January 24, 2007).

section will analyze the Sino-Iranian trade, investments, infrastructure/industrial development assistance and technology transfer. The military section will examine the: (a) amount and variety of Sino-Iranian arms trade and (b) Sino-Iranian military technology sharing. The political aspect will discuss the evolution of the Sino-Iranian diplomatic relations over the past two decades as well as China's role in the Iranian nuclear crisis.

The objective of this chapter is to decipher Chinese intentions regarding Iran. If China is acting in the offensive realism mold, its actions should be directed towards expanding its political, economic, and military influence in the Middle East through Iran in an effort to increase its power and influence and to challenge U.S. hegemony. These actions may include: (a) playing an active role in building up Iran's military in order to challenge U.S. armed forces, (b) providing strong political support to Iran so they may work against U.S. objectives (i.e. unconditional U.N. support for the Iranian nuclear program), and (c) providing massive economic support in a manner which may not make economic sense for China, but would allow the Iranian regime to challenge the United States. In other words, China should be providing economic assistance to Iran with a political agenda to challenge U.S. hegemony.

If China is acting in the economic interdependence mold, China should be taking actions to preserve and promote its economic interests in the Middle East. These actions should include: (a) providing limited political support to the current Iranian regime with the limited objectives to ensure the regime's survival and to protect Chinese economic interests, (b) providing limited military support to Iran to preserve Chinese economic interest (i.e. improving Iran's capability to defend its borders, but not improving it enough to challenge the United States thereby promoting instability in the Middle East), and (c) taking advantage of economic opportunities in Iran which are mutually beneficial. Additionally, if China is acting in the economic interdependence mode, it should be taking actions in the international realm to avoid an armed conflict involving Iran which would pose risks to Chinese economic interests. This would require China to work alongside both the United States and Iran, and its actions should be directed towards preserving the status quo.

B. ECONOMIC

The United States has used its various elements of national power to influence Iran's future. In the economic realm, the United States has used sanctions in the hopes that economic hardship and isolation from the globalized world would cause a regime change in Iran. China, viewing Iran as a long term energy supplier, realizes that a regime change in Iran would not be in its economic interests; therefore, China has played a vital role in helping the Iranian regime survive the U.S. efforts for regime change. This section will show that China, in order to increase the likelihood that the Iranian regime survives, has not only become a major source of capital but has also provided Iran with assistance in industrial and infrastructural development.

1. Trade

Over the past two decades, Iran and China have developed a strong economic relationship. Sino-Iranian trade has been developing rapidly having grown from \$200 million in 1990 to \$10 billion in 2005. Additionally, Iran's 20-year vision projects the annual trade relations between China and Iran to be \$25 billion by 2025.⁴⁰ This trend of closer Sino-Iranian trade relations is confirmed in the Direction of Trade Statistics published by the International Monetary Fund (IMF). Chinese exports in 2000 composed 5.2% of Iran's total imports which made China the sixth largest exporter to Iran. In 2005, Chinese exports increased to 8.3% of Iran's total imports, making China the second largest exporter to Iran. Of the total trade amount, 58-62% of the trade volume has consisted of Iranian exports which provide Iran with much needed capital.

According to the Mehr News Agency, Chinese exports to Iran in 2005 mainly comprised of: electric and mechanical machinery, mineral fuels and lubricants, rail transportation equipment, iron, steel, plastic, toys, sport equipment, and machinery used in the factories and power plants. It also reported that Iranian exports to China mainly

⁴⁰ Iran Daily News, "Sino-Iran Trade to Reach \$25 Billion," *Iran Daily News*, sec. 1, June 25, 2006, <http://www.iran-daily.com/1385/2594/pdf/i1.pdf#search=%22sino%20iranian%20trade%22> (accessed July 5, 2006).

comprised of petrochemical products, crude oil, iron stone, chrome stone, and cast iron.⁴¹ This is not surprising since China views Iran as a source for energy and other natural resources.

The Chinese role in the Iranian economy cannot be understated in terms of the Iranian economic health. Iran's economy is highly dependent on its ability to export oil. This is highlighted by the fact that oil exports accounted for 85% of Iran's export revenue in 2006.⁴² As a result, Iran's economic growth is closely connected to its level of oil revenue.⁴³ The Sino-Iranian trade has allowed Iran to overcome some of the economic hardship imposed on it through U.S. sanctions (thereby undermining U.S. objectives).⁴⁴ Hossein Shariatmadari, a leading conservative theorist and newspaper editor in Tehran, stated that, "Sanctions are not effective nowadays because we have many options in secondary markets, like China."⁴⁵

In the trade realm, the Sino-Iranian relationship is mutually beneficial. Trading with Iran serves three purposes for China: (a) increased trading with Iran is economically beneficial for the Chinese economy (i.e. more jobs), (b) trading with Iran provides China with much needed energy in order to meet its growing energy demand, and (c) trading with Iran provides the Iranian regime with much needed capital and goods in its struggle to survive the U.S. efforts for regime change; thereby providing China with a long-term energy supplier to sustain its economic growth for years to come.

⁴¹ Mehr News Agency, "Iran-China Trade Hit \$9.2 Billion in 2005," *Mehr News Agency* July 9, 2006, <http://www.payvand.com/news/06/jul/1078.html> (accessed August 5, 2006).

⁴² Bill Spindle, "Crude Reality: Soaring Energy Use Puts Oil Squeeze on Iran; there is Less to Export as Consumers Learn to Love Appliances, Cars," *Wall Street Journal*, <http://proquest.umi.com.libproxy.nps.edu:8080/pqdweb?index=0&did=1219149531&SrchMode=1&sid=1&Fmt=4&VInst=PROD&VType=PQD&RQT=309&VName=PQD&TS=1173333166&clientId=11969> (accessed March 7, 2007).

⁴³ Economist Intelligence Unit. "Country Briefing: Iran." *The Economist*. <http://www.economist.com/countries/Iran/profile.cfm?folder=Profile%20Economic%20Data> (accessed March 7, 2007).

⁴⁴ Leverett and Bader, "Managing China-U.S. Energy Competition in the Middle East," *Washington Quarterly*, Winter, 2005, 195, http://www.brookings.edu/views/articles/fellows/20051216_leverett_bader.pdf (accessed April 12, 2006).

⁴⁵ Robin Wright, "Iran's New Alliance with China could Cost U.S. Leverage," *Washington Post*, sec. A, November 17, 2004, <http://www.washingtonpost.com/wp-dyn/articles/A55414-2004Nov16.html> (accessed May 17, 2006).

2. Energy

Over the last few years, China has progressively imported more oil from Iran as indicated in Table 4. While Iran was China's third leading supplier of crude oil in 2005, it temporarily overtook Saudi Arabia as China's leading supplier of crude oil in 2006.⁴⁶ In addition to importing Iranian crude oil, China has expanded its interests in Iran to include oil exploration. Because China's future economic growth is highly dependent on its ability to meet its energy demands, it views energy security as one of the vital issues it must address. This section will discuss China's role in Iran's energy sector and will also analyze its energy security policies.

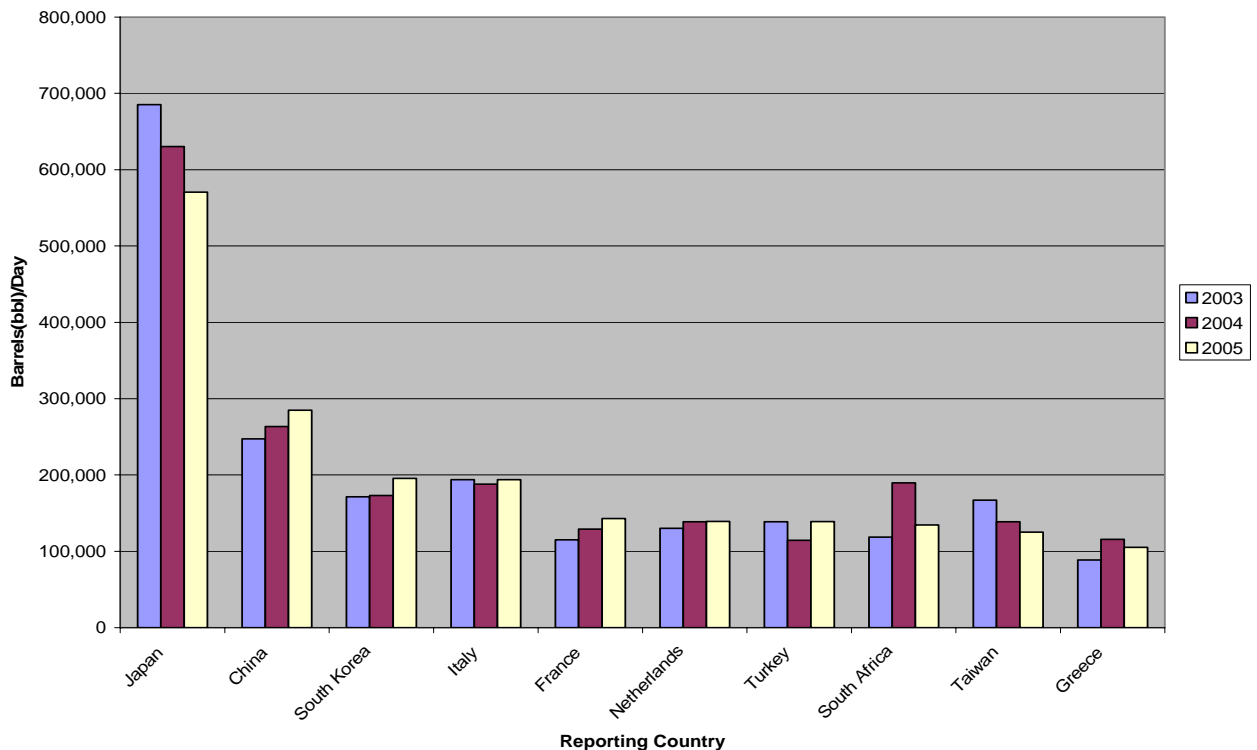


Table 4. Top Ten Iranian Crude Oil Export Destinations (barrels (bbl)/day)

Source: Global Trade Information Services, Inc., Global Trade Atlas, July, 2006⁴⁷.

⁴⁶ John Calabrese, *China and Iran: Mismatched Partners* (Washington D.C.: Jamestown Foundation, 2006), <http://www.jamestown.org/docs/Jamestown-ChinaIranMismatch.pdf#search=%22Chinese%20investment%20iran%22> (accessed September, 22, 2006).

⁴⁷ Energy Information Administration, "Country Analysis Brief: Iran," U.S. Department of Energy, 5, <http://www.eia.doe.gov/emeu/cabs/Iran/Oil.html> (accessed September 14, 2006).

a. Chinese Energy Contracts:

With the recent volatility in energy prices and with increasing questions regarding whether future energy supplies will meet global energy demands, China has pursued energy contracts to secure energy supplies directly at the source by obtaining rights to the physical production of oil within various countries. While most countries purchase oil as a commodity on the international market, these energy contracts allow China to lock up energy supplies before it hits the market. Through these energy contracts, China believes that it will be less exposed to the vicissitudes of global energy markets.⁴⁸

Since the early 2000s, China has sought to invest in Iran for oil exploration. While China is seeking energy equity deals throughout the world, it is worth noting that the energy contracts China signs with Iran are unique. Because Iran does not allow foreign companies to own its hydrocarbon resources, it developed a “buyback” system. Through this system, a foreign company is allowed to develop an oil field but once the field is developed, the National Iranian Oil Company (NIOC) is given complete control. The foreign company, in return for its investment in developing the oil field, is guaranteed a rate of return which is paid in oil. Many western oil companies are wary of this buyback system and therefore do not invest in Iran. Should the oil field produce above expectations, the buyback system does not allow foreign companies to receive any additional benefits. Should the oil field not meet expectations, foreign oil companies can be punished. Additionally, since NIOC has complete control of the production facility once the oil field is developed, the foreign oil company is unable to safeguard their investments.⁴⁹ Despite these conditions, China has shown a willingness to invest in the Iranian energy industry. A brief rundown of the major Sino-Iranian energy contracts is listed below⁵⁰:

⁴⁸ Dan Blumenthal and Phillip L. Swagel, "Chinese Oil Drill," Wall Street Journal, http://www.aei.org/publications/filter.all.pubID.24508/pub_detail.asp (accessed September 4, 2006).

⁴⁹ Eurasia Group, *China's Overseas Investments in Oil and Gas Production* (New York, NY: Eurasia Group, 2006), 10, http://www.uscc.gov/researchpapers/2006/oil_gas.pdf (accessed January 24, 2007). – Provides a good description of global Chinese energy investments.

⁵⁰ These lists are a summarization of Sino-Iranian energy contracts collected from various sources listed in the footnotes.

- **January 2001:** An oil contract between The China Petroleum and Chemical Corporation (SINOPEC) and National Iranian Oil Company (NIOC) was signed. In this agreement, China agreed to invest \$13.25 million to explore for oil over an area of 4670 km² of the Zavareh region.⁵¹ The Zavareh-Kashan exploration block highlights the gamble China takes in overpaying for energy contracts. On August 21, 2006, reports surfaced regarding the possibility of the Chinese moving on from the Zavareh-Kashan exploration block due to the lack of oil. China failed to strike any significant amount of oil in four probes of that block. The failure of that block raises the failure rate for the initial batch of exploration contracts awarded by Iran this decade to 50%.⁵²
- **November 2004:** China secured a 50% stake in the Yadavaran oilfields (Memorandum of agreement reached in 2004, but the official contract has not been signed as of February 2007).⁵³ Numerous issues have delayed the signing of this contract. Initially, Sinopec had disagreements over the master development plans (which were initially written by Iranian officials) for the Yadavaran oil fields.⁵⁴ The Iranian officials were insisting on an eventual output level of 300,000 barrels a day, while Sinopec was only willing to commit to 180,000 barrels per day (at least initially).⁵⁵ Additionally, there have been disagreements over the rate of return involved with the contract. Sinopec is seeking a higher rate of return than what Iran is willing to provide. This shows that despite China's thirst for energy resources, the willingness of China to enter into an energy contract with Iran has its limits.
- **January 2005:** China National Petroleum Corporation (CNPC) won the rights to explore the Kuhdasht block located on the western side of Iran.⁵⁶

⁵¹ Tehran IRNA. "Iran to Allow Chinese Oil Giant to Explore Near Tehran." *Tehran IRNA*, January 13, 2001, 2001, Report Number: IAP20010113000002, <https://www.opensource.gov> (accessed July 16, 2006).

⁵² Vahe Petrossian, "Sinopec Drought on Iran Drilling," *Upstream*, August 25, 2006, <http://www.uofaweb.ualberta.ca/chinainstitute/nav03.cfm?nav03=49613&nav02=43873&nav01=43092> (accessed September 4, 2006).

⁵³ Beijing Xinhua "China's Sinopec, Iran to Sign Deal to Develop Huge Oil Field in Yadavaran." Beijing Xinhua, Report Number: CPP20060915150002, <https://www.opensource.gov> (accessed July 16, 2006).

⁵⁴ Reuters News Agency, "Iran Aims to Sign China Yadavaran Oil Deal Soon," Reuters News Agency, <http://www.uofaweb.ualberta.ca/chinainstitute/nav03.cfm?nav03=56327&nav02=43873&nav01=43092> (accessed February 20, 2007).

⁵⁵ Chris Oliver, "Iran, China Reportedly Closer to Oil Deal," CBS Marketwatch, <http://www.marketwatch.com/News/Story/Story.aspx?guid=%7BA8670494-5595-4FF3-BA83-8FBD9B147D3E%7D&siteid=google&keyword=> (accessed June 5, 2006).

⁵⁶ Tehran Mehr News Agency, "Iran's NIOC Finalizes Contracts for Thai, Chinese Companies to Explore Oilfields." *Tehran Mehr News Agency*, June 11, 2005. Report Number: IAP20050611009005, <https://www.opensource.gov> (accessed July 17, 2006).

- **January 2006:** Iran's North Drilling Company and China Oilfield Services Ltd. signed an oil exploration agreement where China Oilfield Services would invest \$33 million for the management, agreement, and maintenance of the Alborz semi-floating platform. This agreement will allow Iran to explore the deep waters of the southern Caspian Sea. The Chinese company was selected due to its "technical capabilities and more reasonable offer in comparison with its European rivals."⁵⁷
- **June 2006:** Sinopec and NIOC signed the Garsmar contract which obligated China to invest at least \$19.61 million in exploration operations, with complementary operations costing \$38.95 million. Should hydrocarbons be found in the region, Chinese investment into the project could skyrocket to \$58.56 million.⁵⁸

China has also signed contracts in Iran encompassing natural gas reserves. Due to environmental concerns, China has recently taken a strong interest in natural gas resources. Below is a brief rundown of Sino-Iranian natural gas contracts:

- **March 2004:** Zhuhai Zhenrong Corporation (a Chinese state-owned oil trading company) signed a 25-year Liquefied Natural Gas (LNG) contract. Over the lifetime of the LNG contract, China will import 110 million tons of LNG.
- **November 2004:** SINOPEC secured another massive contract with Iran in November 2004. It was awarded a massive \$100 billion contract to buy 10 million tons of LNG per year for 25 years and was also awarded with a 50% stake in the Yadavaran oil fields. When examining this deal, Iran's main objective for the contract seems to be to secure long term markets for its natural gas, and the development of the Yadavaran oil fields was thrown in as an additional incentive for China to sign the contract.⁵⁹

The importance of the Sino-Iranian oil contracts cannot be easily dismissed. Because some of Iran's oilfields have already hit their plateau and their oil production is decreasing, it is vital that Iran increases its recovery rates in these oil fields (which require massive amounts of capital and technologies).⁶⁰ Energy industry experts

⁵⁷ Taleh Ziyadov, "Iran and China Sign Agreements to Explore Oil in Caspian Sea," Eurasia Daily Monitor, http://www.jamestown.org/edm/article.php?article_id=2370729 (accessed July 16, 2006).

⁵⁸ Tehran Mehr News Agency. "Iran-China: Further NIOC, Sinopec Garsmar Oil, Gas Contracts." *Tehran Mehr News Agency*, June 21, 2006, Report Number: IAP20060621950031, <https://www.opensource.gov> (accessed July 16, 2006).

⁵⁹ Chris Oliver, "Iran, China Reportedly Closer to Oil Deal," CBS Marketwatch, <http://www.marketwatch.com/News/Story/Story.aspx?guid=%7BA8670494-5595-4FF3-BA83-8FBD9B147D3E%7D&siteid=google&keyword=> (accessed June 5, 2006).

⁶⁰ Flynt Leverett, "The New Axis of Oil," New America Foundation, http://www.newamerica.net/publications/articles/2006/the_new_axis_of_oil (accessed February 28, 2007).

estimate that Iran needs between \$100-120 billion to help adequately develop its oil fields and to get its oil production back on track.⁶¹ The Chinese energy contracts provide Iran with a portion of that much needed capital.

b. Assessment of Chinese Energy Security Approach

While China has invested heavily in these oil exploration contracts, it is well aware that there is no guarantee that these contracts will pay off. In order to lock up energy sources, SINOPEC and CNPC have outbid other international energy companies for the rights of exploration in Iran. Additionally, China and Iran signed a number of these contracts when energy prices were at an all-time high which further increased the prices of these oil contracts; however, China was still willing to enter into these oil contracts believing that they would strengthen Chinese energy security. There is currently much debate as to whether or not these contracts make economic sense.

Some energy experts believe that China's approach to secure long term contracts makes sense.⁶² In their eyes, energy security is very difficult to predict. While the world currently has enough energy to meet demand, this may not always be the case. Numerous experts have argued that the world's ability to produce oil is reaching its peak. As a result, the world's ability to provide cheaply recoverable oil to meet energy demand will be limited in the future.⁶³ Additionally, energy supplies and prices are highly dependent on factors that are difficult to foresee (i.e., political instability). Should these factors cause an energy scarcity in the future, China's strategy to secure energy sources by overpaying for energy contracts now may very well be effective.⁶⁴ By overpaying for energy contracts now and assuming that Iran possesses as much energy as China believes, it may be guaranteed access to energy in the future if a scenario arises where global

⁶¹ Spindle, "Crude Reality: Soaring Energy Use Puts Oil Squeeze on Iran; there is Less to Export as Consumers Learn to Love Appliances, Cars."

⁶² Phar Kim Beng and Vic Y. W. Li, "China's Energy Dependence on the Middle East: Boost or Bane for Energy Security?" *The China and Eurasia Forum Quarterly* 3, no. 3 (November, 2005), 22-23, http://www.silkroadstudies.org/new/docs/CEF/Quarterly/November_2005/Phar_Kim_Beng_and_Vic_Li.pdf (accessed March 3, 2007).

⁶³ U.S.-China Economic and Security Review Commission, *China's Future Energy Development and Acquisition Strategies*, 2005, 7, http://www.uscc.gov/hearings/2005hearings/written_testimonies/05_07_21_22wrts/luft_gal_wrts.php (accessed June 5, 2006).

⁶⁴ U.S.-China Economic and Security Review Commission, *China's Future Energy Development and Acquisition Strategies*, 7.

energy supplies do not meet energy demand.⁶⁵ This scenario is also contingent on the fact that Iran does not hedge on its obligations like Russia has with Belarus and Ukraine.

On the other hand, many energy experts that believe that the Chinese approach to secure energy sources does not make economic sense. These experts believe that “equity barrels” (those that China secures directly from the source) do not provide any greater energy security than purchasing oil from the global market.⁶⁶ Regardless of the type of oil (equity or market oil), the price of oil will increase if there is a geopolitical event that affects oil supplies (i.e. regional war, political instability, ethnic conflict). To these experts, China’s belief that equity oil deals will provide greater energy security is based on a view of the pre-1970s energy market. Because today’s global energy market is much more dynamic and flexible, no major oil consuming nation has suffered an oil shortage or supply disruption.⁶⁷ Even within China, there have been a growing number of people who are voicing their disagreement regarding China’s strategy to enter into oil equity deals. They contend that these oil equity deals provide China with only a fraction of the oil it imports, and therefore cannot help China in a time of energy supply disruption.⁶⁸

Additionally, many of these experts not only believe that China’s approach to develop these energy contracts does not make economic sense, but can have repercussions for countries throughout the world. It is worth noting that when Chinese companies bid for energy contracts, they have an unfair advantage over their Western

⁶⁵ U.S.-China Economic and Security Review Commission, *China's Role in the World: Is China a Responsible Stakeholder?* 2006, 3, <http://72.14.253.104/search?q=cache:C9vDcf-c3ewJ:www.brookings.edu/views/testimony/fellows/downs20060804.pdf+china+%22energy+security%22+deals+testimony&hl=en&ct=clnk&cd=1&gl=us> (accessed February 28, 2007).; U.S.-China Economic and Security Review Commission, *2005 Annual Report to Congress* (Washington D.C.: U.S.-China Economic and Security Review Commission, 2005), 168, http://www.uscc.gov/annual_report/2005/annual_report_full_05.pdf (accessed February 14, 2007).

⁶⁶ Lieberthal and Herberg, *China's Search for Energy Security*, 20; Sebastian Mallaby, "What 'Energy Security' really Means," *Washington Post*, sec. A, 21, July 3, 2006, http://www.washingtonpost.com/wp-dyn/content/article/2006/07/02/AR2006070200675.html?nav=rss_opinion/columns (accessed February 19, 2007).; South China Morning Post, "New Acquisitions Will Not Boost China's Energy Security," *South China Morning Post*, <http://www.uofaweb.ualberta.ca/chinainstitute/nav03.cfm?nav03=54863&nav02=43884&nav01=43092> (accessed February 28, 2007).

⁶⁷ Lieberthal and Herberg, *China's Search for Energy Security*, 21.

⁶⁸ Downs, *China's Role in the World: Is China a Responsible Stakeholder?* 4,

competition. Part of the reason why Chinese oil companies are able to outbid Western companies may be the fact that unlike Western oil companies, Chinese oil companies have access to government coffers.⁶⁹ The U.S. Department of Energy views China's willingness to overpay for crude oil and other energy resources as a vital concern because China's willingness "to put aside market principles" in order to secure energy contracts have a distorting effect on global energy prices.⁷⁰ Peter C. Evans' and Erica S. Downs' policy brief titled "*Untangling China's Quest for Oil through State-backed Financial Deals*" examines the assistance provided to the state owned oil companies by the Chinese government. Not only does the government provide the state owned oil companies with capital, but it also uses the state owned China Development Bank and China Export-Import Bank to provide the oil companies with: (a) extensions in their lines of credit, and (b) below-market interest rates on loans.

c. U.S. Reaction to Sino-Iranian Energy Deals

The United States has approached China regarding the Sino-Iranian oil equity deals. In February 2004, the United States embassy in China raised its concerns regarding the effects China's investments in Iran have on the U.S. policies. China's response to the U.S.'s concerns was that it was intent on continuing its efforts in Iran, which included its bidding to develop 16 Iranian oilfields.⁷¹ On December 28, 2006, the U.S. Embassy warned China that there would be repercussions should CNOOC sign a proposed \$16 billion gas deal with Iran.⁷² Some Congressional lawmakers have discussed the possibility of enforcing some of the measures of the Iran-Libya Sanctions Act should CNOOC sign the gas contract. China responded to the U.S. warning by stating that the

⁶⁹ Chris Baltimore, "U.S., China Take Different Views on Energy Security," Reuters, http://today.reuters.com/news/articlenews.aspx?type=inDepthNews&storyID=2006-11-27T161742Z_01_N22211855_RTRUKOT_0_TEXT0.xml&pageNumber=0&imageid=&cap=&sz=13&WtModLoc=NewsArt-C1-ArticlePage2 (accessed January 18, 2007)., 1

⁷⁰ Ibid., 2; Peter C. Evans and Erica S. Downs, *Untangling China's Quest for Oil through State-Backed Financial Deals* (Washington D.C.: Brookings Institution, 2006), 2, <http://www.brook.edu/comm/policybriefs/pb154.pdf> (accessed February 21, 2007).

⁷¹ Mai Tian, "No Change in Oil Field Bidding." *Beijing China Daily*, February 02, 2004, sec. Business, Report Number: CPP20040202000006, <https://www.opensource.gov> (accessed July 16, 2006).

⁷² Eli Lake, "U.S. Embassy is Warning Beijing on Iran Gas Deal," *New York Sun*, http://www.nysun.com/article/45816?page_no=2 (accessed February 15, 2007).

gas deal was legitimate and that the United States should stop interfering in Sino-Iranian trade affairs.⁷³ Despite U.S. pressure, China is intent on furthering its investments in Iran.

d. Summary

While this section does indicate closer Sino-Iranian economic ties, there are numerous indications that China does have a limit as to how close it will become with Iran within the energy realm.

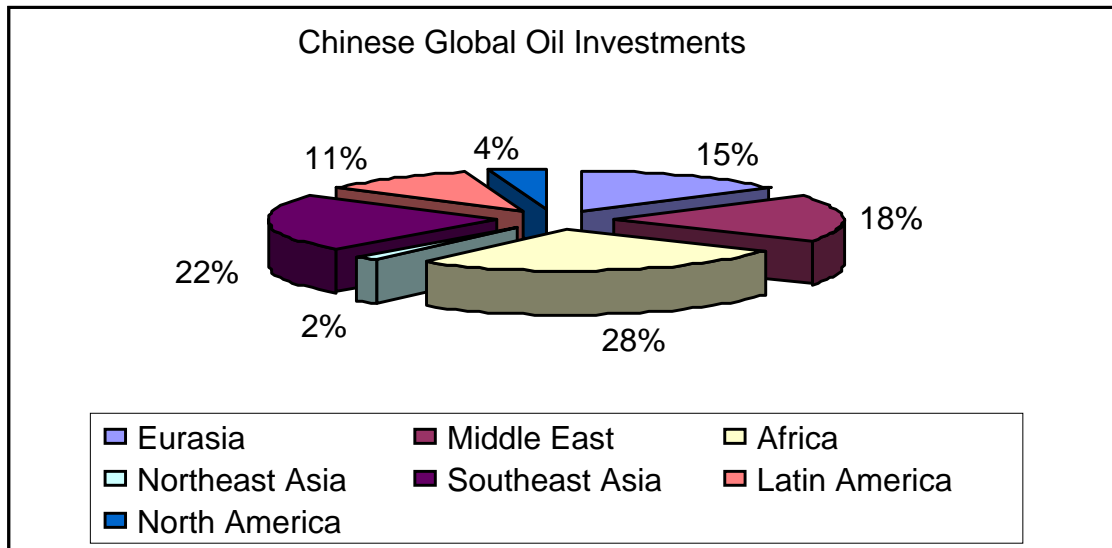


Table 5. Chinese Global Oil Investments (as of 2006)
Source: National Bureau of Asian Research⁷⁴

This section has highlighted two vital trends in Sino-Iranian relations. First, the sheer number of energy contracts and the amount of money China has invested in Iran indicate that it views Iran as a long term energy supplier. As a result, it is seeking the Iranian regime's survival even if it undermines U.S. objectives. If China does not view the current Iranian regime as a long term energy supplier, the massive long-term energy deals do not make much sense (i.e. 25-year natural gas contract).

Secondly, while China is seeking the survival of the Iranian regime, it has also shown a willingness to limit the extent of the Sino-Iranian economic relationship.

⁷³ BBC News, "China Defends Iran Gas Deals Talks," BBC News, <http://news.bbc.co.uk/2/hi/business/6251365.stm> (accessed February 15, 2007).

⁷⁴ Lieberthal and Herberg, *China's Search for Energy Security*, 15.

This is indicated by two things. First, China has made no secret of its desire to keep its energy sources diversified despite Iran's desperate need for capital and technology. As Table 5 (above) shows, China has invested over \$7 billion in oil exploration and development of oilfields in Nigeria, Syria, and Kazakhstan during the first six months of 2006 alone.⁷⁵ Secondly, China has also shown an unwillingness to enter into energy contracts unless it is deemed economically beneficial enough from the Chinese viewpoint. As stated earlier, it is peculiar that the Yadavaran oilfield contract has yet to be signed by both parties even though a memorandum of understanding was reached over two year ago. The fact that the Yadavaran agreement has taken over two years to finalize shows that China will not enter into an arrangement that it does not feel is mutually beneficial. From this action, it is clear that China will not arbitrarily provide Iran with capital just for the sake of assisting the Iranian economy.

3. Technology Transfer

China realizes that if Iran is to be a long term energy supplier to China, it must have a strong economy. Having a stronger economy would further increase the likelihood of regime survival. While this undermines U.S. objectives, China is willing to look past U.S. objections in order to secure energy sources. In the late 1980s, a pattern was established regarding Sino-Iranian economic relations. In order to assist Iran with its postwar reconstruction effort, China agreed to supply industrial equipment, technology and engineering services in return for Iranian oil.⁷⁶ John Garver's book "*China and Iran: Ancient Partners in a Post Imperial World*" provides an excellent analysis on the assistance China has provided to Iran outside of the energy sector.

Over time, China has provided Iran with a great deal of assistance establishing their industries. Much of this assistance has not only been technical assistance. The sheer amount of manufacturing equipment sent to Iran has also played a role in the development of Iranian industries. In 1989, a memorandum of understanding was signed between Iran and China regarding the transfer of technology in the following areas: power station equipment (joint project to manufacture two 300-megawatt thermal power

⁷⁵ Calabrese, *China and Iran: Mismatched Partners*, 13.

⁷⁶ John W. Garver, *China and Iran: Ancient Partners in a Post-Imperial World* (Seattle, WA: University of Washington Press, 2006), 244.

plants), sugar making machinery, papermaking machinery (joint project to create one paper factory), and machine tools and engineering machinery manufacturing equipment.⁷⁷ The machinery for the sugar refining plants and crane trucks for these projects were to be manufactured in Iran with Chinese assistance.⁷⁸ Additionally, during the same timeframe, research centers in China (particularly in Chinese machine-tool-building) began to cooperate with Iranian factories located in Iran.⁷⁹ In 1991, China and Iran signed another memorandum of understanding establishing joint industrial design and engineering companies. In 2003, China and Iran further expanded their joint ventures when two Chinese auto manufacturers established auto factories in Iran. The Shanghai Automobile Industry Corporation (SAIC) set up a factory in Mashhad while First Auto Works (FAW) set up a factory in Esfahan. Through this agreement, SAIC was to provide Iran with technology, design assistance, auto parts, and marketing support.⁸⁰ As a result of these projects, Iran was able to acquire a vast amount of skill and technology. While Iran may have been able to secure these technologies from European companies, the Iranians preferred to deal with Chinese companies. The Chinese showed a willingness to fulfill contracts and transfer technology at rates which were substantial less expensive than western companies. For example, in the first phase of the Tehran metro system, Chinese companies were willing to take on the project at 25% of the cost of western companies.⁸¹

What is interesting about China's assistance in these projects is that it was willing to transfer technology to Iran that it only recently acquired itself. SAIC transferred manufacturing technology and modern automobile design techniques which it acquired from General Motors (United States) and Volkswagen (Germany) during the 1990s.⁸² The willingness to transfer advanced technology to Iran existed in other sectors also. In 1989, China signed an agreement with Iran which allowed Iran access to ion beam implantation technology, which was used in their metal industry. The ion beam

⁷⁷ Garver, *China and Iran: Ancient Partners in a Post-Imperial World*, 255.

⁷⁸ Ibid.

⁷⁹ Ibid.

⁸⁰ Ibid., 256.

⁸¹ Ibid., 262.

⁸² Ibid., 256.

implantation technology was only recently acquired by China in the 1980s.⁸³ While this is a mutually beneficial relationship in which China received oil and capital while Iran received technology, the fact that China was willing to transfer such new technologies emphasizes the importance it places on the Sino-Iranian relationship.

4. Infrastructure Improvement

Both China and Iran realized the importance of infrastructure to industrial development. In this sense, Iran has looked towards China to play a vital role in the improvement of Iran's infrastructure.⁸⁴ While some of the projects China has carried out in Iran have already been discussed, there have been numerous other joint projects improving Iran's infrastructure. In 1989, China stated that it was prepared to assist building four 12-megawatt power plants. In 1995, a Chinese electrical machinery manufacturer was awarded a contract to produce four 320-megawatt thermo-electrical power generators.⁸⁵ Additionally in 1996, two other power plants were completed with Chinese assistance. One was a 10-megawatt hydropower and the other was a 325-megawatt thermal power generating facility.⁸⁶ Since 2001, there have been seven additional joint projects to improve Iran's electrical services.

In addition to improving Iran's electricity production, China has assisted in improving Iran's transportation sector. The vital role that the transportation sector plays in economic development was highlighted by China during a meeting between Iran's transportation minister Ahmad Khorram's and Beijing's Vice Premier Huang Ju. In 1996 China and Iran completed a railway line which linked Iran and Central Asia. During the building of this railway, China supplied technical experts, a provision of railway parts and also transferred various technologies.⁸⁷ China also played a vital role in the Tehran Metro Project. The Tehran Metro Project developed two unique characteristics in joint Sino-Iranian ventures: (a) joint acquisition of advanced technology, and (b) large scale

⁸³ Garver, *China and Iran: Ancient Partners in a Post-Imperial World*, 256.

⁸⁴ Calabrese, *China and Iran: Mismatched Partners*, 4.

⁸⁵ Garver, *China and Iran: Ancient Partners in a Post-Imperial World*, 256.

⁸⁶ *Ibid.*, 257.

⁸⁷ *Ibid.*, 258.

Chinese financial support (which will be discussed in the following section).⁸⁸ In developing the Tehran Metro system, China did not have certain technologies that Western companies possessed. Particularly, China needed improvements in the following areas: (a) braking, (b) signaling, (c) ventilation, and (d) manufacturing workshops. By taking on the Tehran Metro Project, China had a strong incentive to acquire these technologies, modernize its own manufacturing factories, and then use these factories to produce modern components for the Tehran metro. The Chinese then agreed to pass on these new technologies to Iranian industries. As a result of this partnership, not only did the Tehran Metro Project provide China with new technologies, but Iran was also provided with these new technologies which helped their domestic industries⁸⁹.

Outside of railway production, China is also assisting in developing other areas within Iran's transportation sector. As of 2004, the Chinese were assisting in the construction of a highway between Tehran and Chalus, which is located on the Caspian Shore. When completed, this roadway will allow people to commute more easily between Tehran and Chalus and would play a role in Iran's effort to strengthen its role in the growing Caspian regional economy.⁹⁰

There have been other economic sectors in which China has provided minor assistance. Agriculture and irrigation have been areas in which Iran has greatly benefited from Chinese knowledge and technology transfer. Iranians benefited greatly from learning new methods of raising bees, fish, and shrimp. Additionally, Iranian irrigation systems were improved using Chinese assistance and technology. In 1995, China exported nearly \$1 million worth of underwater electrical pumps and control system for use in irrigation.⁹¹ In addition to transferring relatively advanced technology to Iran, China has also assisted the Iranian economy by investing in the non-oil sectors of the Iranian economy.

⁸⁸ Garver, *China and Iran: Ancient Partners in a Post-Imperial World*, 264.

⁸⁹ *Ibid.*, 261-262.

⁹⁰ *Ibid.*, 259.

⁹¹ *Ibid.*, 257.

5. Investments/Financing

The Tehran Metro Project also established another characteristic of joint Sino-Iranian ventures. In order to complete the Tehran Metro Project, the Chinese had underwritten a substantial portion (\$1.5 billion) of the project.⁹² China was willing to accept a low return and take a greater financial risk by substantially underwriting the Tehran metro project and other joint Sino-Iranian ventures because the projects: (a) created jobs in China, (b) provided China with an opportunity to further expand its exports to the Middle East, and (c) provided China with a stable strategic and economic partner in the Middle East.

Chinese investments and Sino-Iranian cooperation in Iran's infrastructure seem to be increasing, which may lead to further Iranian domestic industry development. The transportation projects Iran is looking to complete in the next few years include: (a) production of 600 railway passenger cars, (b) 5,000 freight wagons, (c) ships, (d) construction of 5,000km of expressway, (e) construction of 6,000 km railway, (f) seven international airports, and (g) three large trade ports. In 2003, China has agreed to invest \$3-4 billion in Iran's infrastructure over a three year period.⁹³

While China has played a vital role in Iran's economic and infrastructural development, it is important to point out that both sides have benefited from these infrastructural projects. As mentioned earlier, China is willing to take additional risks that western companies do not in order to help Iran; however, it is not willing to take substantial economic losses to help Iran develop its economy and infrastructure. When this Sino-Iranian infrastructure development relationship began, China made clear that while it was willing to assist Iran in its postwar construction "as far as it is able" to, this relationship must be "on the basis of equality and mutual benefit."⁹⁴

6. Summary

As stated earlier, if China is behaving in the offensive realism mold, it should be providing massive economic support (despite any economic losses it may incur) in a manner which strengthens Iran so that it can challenge the United States. In other words,

⁹² Garver, *China and Iran: Ancient Partners in a Post-Imperial World*, 264.

⁹³ Ibid., 259.

⁹⁴ Ibid., 243.

China should be providing economic assistance to Iran with a political agenda to challenge U.S. hegemony. China's behavior does not fall into that category. There is no question that China's economic policies toward Iran are undermining U.S. objectives; however, the reasons why China is undermining U.S. objectives are not based on intentions to expand its power and influence at the cost of the hegemon. Its reasons for undermining U.S. objectives are more closely aligned with the economic interdependence school of thought.

China's reasons for supporting the survival of the current Iranian regime are driven by its need for long term energy sources. By providing Iran with: (a) much needed capital to circumvent the effects of the U.S. sanctions, (b) technology to improve the Iranian infrastructure and industries, and (c) various other investments, China has attempted to increase the survivability of the Iranian regime which they view as a long term energy partner. Despite the fact the Chinese goals are in conflict with U.S. objectives and policies, there are numerous aspects of the Chinese behavior which are inconsistent with the offensive realism framework.

First, if China is acting in the offensive realism mode, it should be attempting to strengthen and expand their influence in Iran at every opportunity. The limits China has imposed on the Sino-Iranian relationship indicate that its approach toward Iran is not intended to expand its power at the cost of the hegemon, but is based on economic reasons. As stated earlier, China realizes the dangers of becoming overly reliant on a single country to meet its rising energy demands. This is validated by the sheer amount energy equity deals it has entered into throughout the world. The fact that China is substantially investing in energy resources outside of Iran, despite the Iranian need for massive capital and technology in its oilfields, shows that it will limit how much assistance it provides to Iran. These actions are more consistent with the economic interdependence theory, and not with a state that is looking to expand its power in order to challenge the hegemon.

Secondly, China has emphasized that any economic arrangement it enters into with Iran must be "on the basis of equality and mutual benefit." This statement indicates that China is not willing to assist Iran unless it also benefits economically. China is

clearly looking at Iran as a business partner as opposed to a state that can assist it to decrease U.S. power and influence in the Middle East. An example that illustrates this Chinese stance is the delay in the signing of the Yadavaran oil contract. Despite its growing energy demand and Iran's need for capital, China has been unwilling to sign the Yadavaran agreement. Initially, China refused to sign the agreement because it was not presented with what it considered an acceptable master development plan. Now, China is unwilling to sign the contract due to issues over the rate of return it would receive from the deal. This indicates that China is content with taking over two years to finalize the Yadavaran agreement in order to reach what it deems as a favorable agreement. Should the terms of the energy agreements not be beneficial to China as Chinese officials desire, it is content with not finalizing the agreements until its demands are addressed. This behavior does not fit well with a state that is seeking to strengthen Iran to challenge U.S. hegemony. China's behavior is driven by economic interests, which is closely aligned with the economic interdependence model.

Another reason to be cautious about labeling China as acting in the offensive realism mold is the fact that China's behavior is not unique by any means. There are numerous other countries that also invest and trade heavily with Iran which would not be considered as behaving in the offensive realism mold. For example, prior to China becoming Iran's number one customer for oil, Japan, which is a close U.S. ally, has traditionally occupied that spot. Additionally, other traditional U.S. allies such as South Korea, Turkey, Taiwan, and various European Union (E.U.) nations continue to invest in and purchase substantial amounts of energy from Iran.⁹⁵ Interestingly, the United States has not raised any massive public concerns regarding these countries' contribution to sustaining the Iranian regime as it has with China's involvement.

If China was behaving in the offensive realism mold and wanted Iran to challenge the United States, it should be: (a) providing Iran with massive economic support regardless of whether it makes economic sense (attached with a political agenda to challenge U.S. hegemony), and (b) expanding its ties with Iran at every opportunity

⁹⁵ Energy Information Administration, "Country Analysis Brief: Iran," U.S. Department of Energy, <http://www.eia.doe.gov/emeu/cabs/Iran/Oil.html> (accessed September 14, 2006).

which it has not done. Instead, this case study has shown that China is not taking actions as offensive realists would anticipate.

C. MILITARY

In his 2002 regime change speech, President George W. Bush left all options open regarding the avenues it would pursue to confront regimes which he considered to be threats to the United States. He specifically highlighted the use of military action to meet U.S. objectives of a stable Middle East; therefore, any country providing advanced military equipment to Iran could be viewed as working against the United States and its objectives.

1. Arms/Technology Export

In the military realm, China has assisted Iran in numerous facets; however, the main Sino-Iranian cooperation in the military realm revolves around military arms sales and technology sharing. While Russia is Iran's main weapons supplier, China has been a steady arms provider to Iran. Table 6 shows the amount of weapons China has transferred to Iran between 1995 and 2005, while Table 7 provides a breakdown of what exactly has been transferred to Iran. China's arms export to Iran concerns the United States in two areas: (a) assistance in developing Iran's asymmetric capability, and (b) sale of battlefield and cruise missiles, and missile production technology to Iran.⁹⁶

First, the United States' concerns with Chinese assistance in developing Iran's asymmetric capability revolve around: (a) the possibility of the Iranians disrupting maritime shipping through the Straits of Hormuz, and (b) the increased threats that are posed to U.S. naval forces operating in the Middle East.⁹⁷ Throughout the 1990s, China has continued to supply Iran with anti-ship missiles such as the C-701, C-801, C-802, FL-6, TL-10/FL-8, TL-6/FL-9. Additionally, China has sold various Fast Attack Crafts to Iran (See Table 7). This concerns the United States because Iran has shown its willingness to use Chinese weapons against U.S. naval forces. During the 1980s, Iran used Chinese Silkworm missiles against U.S. warships operating in the Persian Gulf.

⁹⁶ Calabrese, *China and Iran: Mismatched Partners*, 9-10.

⁹⁷ Ibid., 9.

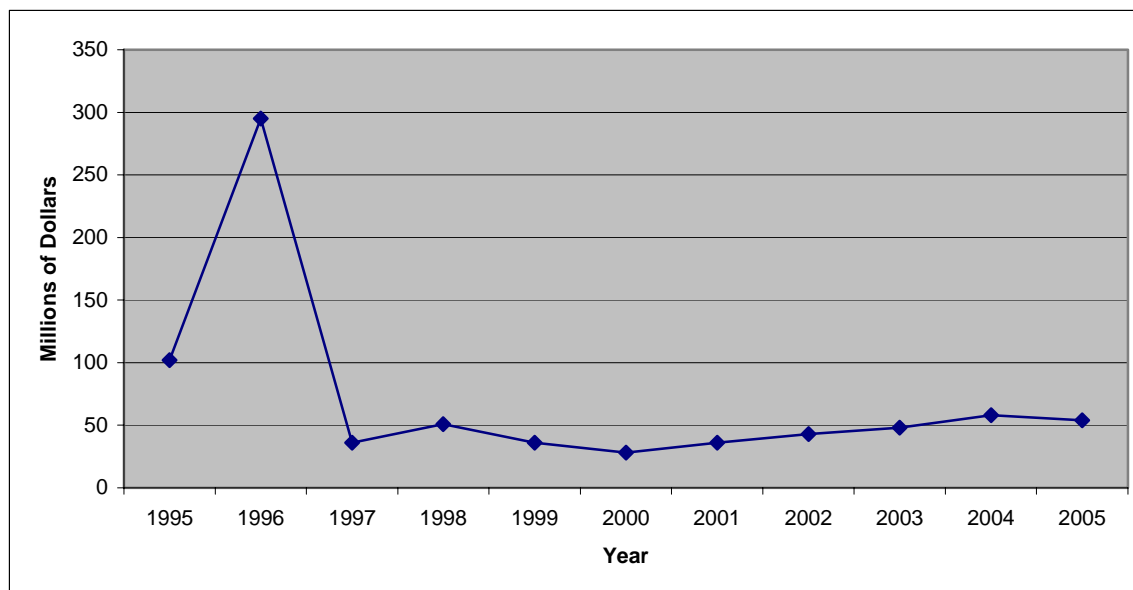


Table 6. Amount of Chinese Arms Sales to Iran: (1995-2005) ⁹⁸

Source: Stockholm International Peace Research Institute⁹⁹

# Ordered	Weapon Designation	Weapon Description	Year of order	Year(s) of deliveries	# delivered/ produced
5	F-7M Airguard	Fighter Aircraft	1995	1995	5
9	Y-12	Transport Aircraft	1993	1994-95	9
2	Y-7	Transport Aircraft	1994	1998	2
25	CSS-8 TEL	SSM Launcher	1989	1990-96	25
40	C-701/FL-10	Anti-Ship Missile	1998	2001-04	40
24	C-801/CSS-N-4 Sardine	Anti-Ship Missile	1992	1996	24
100	C-801/CSS-N-4 Sardine	Anti-Ship Missile	1992	1995-6	100
24	C-801/CSS-N-4 Sardine	Anti-Ship Missile	1996	1997-99	24
N/A	C-802/CSS-N-8 Saccade	Anti-Ship Missile	1992	1994-2005	240
200	CSS-8 TEL	SSM	1989	1990-96	200
N/A	FL-6	Anti-Ship Missile	2000	2002-05	85
N/A	TL-10/FL-8	Anti-Ship Missile	2002	2004-05	20
N/A	TL-6/FL-9	Anti-Ship Missile	2003	2005	10
7	China Cat Type	FAC(M)	2000	2001-04	7
10	Hudong Class	FAC(M)	1992	1994-96	10

Table 7. Breakdown of Major Chinese Arm Sales to Iran: (1995-2005)

Source: Stockholm International Peace Research Institute¹⁰⁰

⁹⁸ Figures are millions of dollars at constant 1990 prices.

⁹⁹ Stockholm International Peace Research Institute, "Amount of Military Sales to Iran (1995-2005)," Stockholm International Peace Research Institute, http://www.sipri.org/contents/armstrad/TIV_imp_IRA_95-05.pdf/download (accessed March 15, 2007).

Although the United States views China's arms sales to Iran with caution, the Chinese government has not exported a single weapon to Iran that violates international agreements, or any weapon that would dramatically increase Iran's military capabilities against the United States and its allies¹⁰¹. Additionally, as Table 6 shows, China has not substantially increased its arms export to Iran between 1997 and 2005.¹⁰² China has also shown a willingness to cooperate with the United States over arms proliferation. In 1989, China cooperated with the United States and promised to stop selling Silkworm missiles to Iran, albeit under the threat of U.S. sanctions. It also provided the United States with the technical information to defeat those missiles. Additionally, in November 2000, China promised to develop export control regimes and also promised to work to prevent the proliferation of various missile technologies.¹⁰³ As a result of these promises, the Clinton administration pledged to resume exporting satellites to China and also waived missile proliferation sanctions against China.¹⁰⁴ China's willingness to cooperate with the United States if it feels that the Sino-U.S. economic relationship is about to be substantially damaged highlights the vital role economic matters play in influencing Chinese actions.

¹⁰⁰ Stockholm International Peace Research Institute, "Breakdown of Major Chinese Arms Sales to Iran (1995-2005)," Stockholm International Peace Research Institute, http://www.sipri.org/contents/armstrad/REG_IMP_IRA_95-05.pdf/download (accessed March 15, 2007).

¹⁰¹ China's willingness to cooperate may have been a result of numerous U.S. reminders to China of the consequences of ignoring U.S. warnings regarding the welfare of U.S. interests in the Middle East. - Richard N. Haass and Meghan L. O'Sullivan, *Economic Sanctions and American Diplomacy* (New York, NY: Council on Foreign Relations, 1998), 22 (accessed January 18, 2007).

¹⁰² The arms sales data reflected 1995-1996 seems to be an anomaly. The reason why arms sales may have gone up over that period is not due to China's desire to see Iran challenge the United States. Its actions were likely due to events occurring in the U.S.-Taiwan relationship. The Taiwanese President visited the United States in 1995 which drew the ire of China. China viewed this visit as Taiwan's attempt to promote its desire for independence. Additionally, China wanted the U.S. to halt a proposed F-16 deal. (Garver, *China and Iran: Ancient Partners in a Post-Imperial World*, 215). As a result, China may have increased its arms export to protest the close U.S.-Taiwan relationship and to show the United States it has the ability to undermine U.S. policies.

¹⁰³ U.S.-China Economic and Security Review Commission, "Proliferation and Chinese Relations with Terrorist Sponsoring States," U.S.-China Economic and Security Review Commission, http://www.uscc.gov/researchpapers/2000_2003/reports/ch7_02.htm (accessed February 21, 2007).

¹⁰⁴ Shirley A. Kan, *China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues* (Washington D.C.: Congressional Research Service, 2006), 1, <http://fpc.state.gov/documents/organization/76878.pdf> (accessed January 31, 2007).

Secondly, the United States has been concerned regarding Chinese companies transferring missile technology to Iran. The United States has sanctioned Chinese companies for transferring sensitive technologies to Iran like guidance, solid propellant motor, and telemetry technologies. The China North Industries Group (NORINCO) has been sanctioned by the United States three times in 2003 alone.¹⁰⁵ Shirley A. Kan's Congressional Research Service report titled "*China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues*" provides a timeline of reported Chinese missile technology proliferation to Iran.

- Mid 1994-1995: CIA reported that China provided Iran with dozens (if not hundreds) of missile guidance systems and computerized machine tools. (International Herald Tribune – June 23, 1995)
- August 1996: CIA reported that China agreed to provide Iran with gyroscopes, accelerometers, and test equipment which may be used for missile guidance systems. (Washington Post – November 21, 1996)
- September 1997: U.S. and Israeli intelligence sources report that China provided Iran with telemetry equipment used in test flights for the Shahab-3 and Shahab-4 missiles. (Washington Times – September 10, 1997)
- May 1998: U.S. intelligence report states that China discussed selling telemetry equipment to Iran. (Washington Post – June 16, 1998)
- Throughout 1999: U.S. sources believe that Chinese companies still continued to sell missile technology (i.e. telemetry and specialty steel) to Iran. (Washington Times – April 15, 1999)
- November 21, 2000: The Clinton administration announces that Chinese companies had transferred other missile components (Category II items) to Iran.
- January 2001: Washington Times reported that NORINCO transferred specialty metals and chemicals used for missile production to Iran. (Washington Times – January 26, 2001)
- May 9, 2002: The Bush administration imposed sanctions against eight Chinese entities for violating the Iran Nonproliferation Act. The United States insisted that these eight entities had provided Iran with small boats armed with anti-ship cruise missiles.
- July 9, 2002: The Bush administration sanctioned the China Shipbuilding Trading Company for "knowingly and materially contributing to the proliferation of destabilizing numbers and types of cruise missiles to Iran."¹⁰⁶
- May 23, 2003: The Bush administration imposed sanctions against NORINCO on the grounds that it had provided Iran with missile technology.
- June 26, 2003: The Bush Administration imposed sanctions on five Chinese companies (including NORINCO) on the grounds that they provided missile technologies to Iran.
- April 1, 2004: The Bush administration imposed sanction on five additional Chinese companies for missile technology proliferation to Iran.

¹⁰⁵ Kan, *China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues*, 10.

¹⁰⁶ *Ibid.*, 17.

- September-December 2004: The Bush administration imposed various sanctions on NORINCO, the Xinshidai Company, and other Chinese entities on the grounds that they violated that Iran Nonproliferation Act.
- December 2005: The Bush administration imposed more sanctions on NORINCO and five other Chinese entities on the grounds that they proliferated missile and Chemical weapons technology to Iran.
- June 13, 2006: The Bush administration imposed more sanction on previously sanctioned Chinese companies for proliferating missile technologies to Iran.¹⁰⁷

Despite repeated U.S. sanctions on Chinese companies, the Chinese government may not be responsible for some of the proliferation activities. There are experts that question how much control the Chinese government has over its companies. Even the U.S. State Department acknowledges that the relationship between proliferating entities and the Chinese government is confusing. Paula A. DeSutter, the Assistant Secretary for Verification and Compliance in the State Department, stated that “many (proliferating) entities appear to be organizations with direct ties to the Chinese government while some appear to have a more tenuous relationship with the Central government.”¹⁰⁸

Another factor to consider regarding Chinese companies’ proliferation activities is that China may currently lack the ability to effectively control its exports. Export control is a relatively new challenge that China is attempting to address; therefore, it will take time for China to adequately develop a comprehensive export control system. Some of the challenges that the Chinese export control system faces are: (a) inadequate personnel and equipment (i.e. X-ray devices), (b) limited ability to investigate export control violations (China still relies on western intelligence data), and (c) the lack of a comprehensive database tracking export licenses and end user/uses verification. While China is taking steps to improve its export control system (i.e. increasing training of personnel, conducting joint U.S.-China export control conferences, creating a comprehensive export control database), it will take some time for China’s export control system to meet U.S. expectations.¹⁰⁹

¹⁰⁷ Kan, *China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues*.14-15; Provides excellent summary on Chinese proliferation activities.

¹⁰⁸ United States-China Commission, *China's Record of Proliferation Activities*, 2003, 1, <http://www.state.gov/t/vci/rls/rm/24518.htm> (accessed February 20, 2007).

¹⁰⁹ Evan S. Medeiros, *Chasing the Dragon: Assessing China's System of Export Controls for WMD Related Goods and Technologies*. Santa Monica, CA: RAND Corporation, 2005, 87-93, http://www.rand.org/pubs/monographs/2005/RAND_MG353.sum.pdf (accessed January 31, 2007) – Provides an excellent analysis of Chinese export controls.

China is also taking a more proactive approach on the international realm to limit technology transfer. In 1992, China agreed to abide by the original 1987 Missile Technology Control Regime (MTCR) guidelines and parameters, and in 2000 Beijing issued export control laws regulating the transfer of missile technologies for the first time.¹¹⁰

2. Nuclear Assistance

While China has continued to provide arms to Iran, the United States has criticized it for providing nuclear technology to Iran. The United States has repeatedly accused China of not doing enough to prevent the proliferation of weapons of mass destruction.

China's involvement in Iran's nuclear program can be traced back to the 1980s. During the mid-1980s, China was reportedly training Iranian personnel in nuclear technology. Additionally, China and Pakistan signed nuclear cooperation agreements with Iran in 1987 and 1990. Through these agreements, China promised to deliver a 27KW Miniature Neutron Source Reactor (MNSR) and two 300MW Qinshan power reactors. It is important to note that the reactors that China would provide Iran were to be under IAEA safeguards, thereby reducing the concerns that Iran would use them to develop nuclear weapons.¹¹¹ While some may interpret the Chinese nuclear assistance as China's determination to see a nuclear Iran, it has cooperated with the United States on this nuclear front.¹¹² In a press statement released by the U.S. National Security Advisor Sandy Berger in October 1997, China provided assurances to the United States that it would not engage in any new Sino-Iranian nuclear cooperation, and that other than two existing projects (a small research reactor and zirconium production facility) all existing Sino-Iranian nuclear cooperation projects would end.¹¹³ As a result of its willingness to cooperate with the United States, China did not follow through with

¹¹⁰ Calabrese, *China and Iran: Mismatched Partners*, 10.

¹¹¹ Nuclear Threat Initiative, "China's Nuclear Exports and Assistance," Monterey Institute for International Studies - Center for Nonproliferation Studies, <http://www.nti.org/db/china/nexport.htm> (accessed March 10, 2007).

¹¹² Nuclear Threat Initiative, "Country Overviews: Iran: Nuclear Overview," Nuclear Threat Initiative, http://www.nti.org/e_research/profiles/Iran/1819.html (accessed January 18, 2007).

¹¹³ Nuclear Threat Initiative, "China's Nuclear Exports and Assistance to Iran."

its promises to provide Iran with two power plants, plutonium-producing research reactor, and uranium conversion plant, etc.¹¹⁴

In addition to cooperating with the United States over Iran's nuclear plants, China has taken steps to come more in line with the international norms regarding the proliferation of WMD technology. On March 9, 1992, China acceded to the Nuclear Nonproliferation Treaty, and in September 1996 China signed the CTBT.¹¹⁵ Additionally, in 1996 China agreed to abide by the Missile Technology Control Regime guidelines (MTCR). The Chinese approach to nuclear nonproliferation took a more encouraging direction when China released the White Paper on Nonproliferation on December 3, 2003. In this paper China: (a) embraced multilateral export regimes which it previously criticized, (b) acknowledged the need for improved transparency of its export control system, and (c) indicated that export controls warrant the attention of the State Council (implying that at least some of China's top leaders take the export controls issue seriously).¹¹⁶ Another interesting aspect of the 2003 White Paper is that it did not criticize the United States as previous White Papers have. Instead, this White Paper seemed to be written to address the demands the United States has made on China for more transparent and straightforward nonproliferation policies.¹¹⁷

Recently, the focus of attention over the Iranian nuclear issue has not been the transfer of technology or material delivery but has been over China's role in the international political realm revolving around Iran's nuclear program. This topic will be discussed in the political section.

3. Summary

While China's role in assisting Iran's military can be interpreted by some as China's intention to undermine U.S. objectives in the Middle East and expand its powers in the Middle East as the offensive realists may suggest, the evidence proves ambiguous at best. First, Chinese arms sales to Iran has not increased substantially in the past decade.

¹¹⁴ Nuclear Threat Initiative, "Country Overviews: Iran: Nuclear Overview."

¹¹⁵ China has signed the CTBT, but like the United States, its government has not ratified it.

¹¹⁶ Stephanie Lieggi, "China's White Paper on Nonproliferation: Export Controls Hit the Big Time," Center for Nonproliferation Studies, http://www.nti.org/e_research/e3_36a.html (accessed January 31, 2007).

¹¹⁷ Nuclear Threat Initiative, "Country Overviews: Iran: Nuclear Overview."

As Table 6 shows, Chinese arms sales to Iran between 1997-2005 have remained steady. If China is truly acting in the offensive realism mold and is looking to make Iran stronger in order to decrease U.S. power and influence in the Middle East, it should be heavily encouraging Iran to purchase massive amounts of advanced Chinese military goods – which it has not. Additionally, China has listened to U.S. concerns regarding the sales of advanced military hardware to Iran. As stated earlier, the Chinese government has not exported any military hardware that could change the regional balance of power or pose a substantially greater risk to U.S. forces operating in the area.

Secondly, while Chinese companies may have exported missile technologies to Iran, the Chinese government's awareness of and/or involvement in these technology transfers is unknown. This makes it more difficult to determine the true intentions of the Chinese government; however, China has gravitated closer towards the international approach regarding nonproliferation. China has acceded to the NPT, signed the CTBT, and pledged to abide by the original 1987 MTCR guidelines. By signing on to these agreements, China has stated that WMD proliferation, including to Iran, is not in global interests and it desires to preserve the status quo in the Middle East. China's release of the 2003 White Paper on nonproliferation indicates that China is taking further steps to cooperate with the United States. This White Paper marked a change in Chinese nonproliferation policies which now emphasizes export controls and a more active approach to WMD nonproliferation. These actions are not consistent of a state acting in the offensive realism mode. If China viewed the United States as a hegemon it seeks to usurp power from, it would most likely be refusing to cooperate with the United States and taking steps to assist the Iranian military and nuclear program.

The Chinese approach to Sino-Iranian military ties is geared towards preserving the status quo as opposed to expanding its influence in the region at the cost of the United States. Realizing that: (a) an armed conflict involving Iran, and (b) antagonizing the United States are not in its economic interests, China has refrained from providing Iran with advanced military equipment to challenge the United States. Additionally, its nonproliferation policies are becoming more compatible with the United States'

nonproliferation stance as time passes. These actions are more consistent with a state behaving in the economic interdependence model rather than the offensive realism model.

D. POLITICAL

Since China realized it would have to rely on foreign energy sources, it has progressively developed closer political relations with governments in the Middle East. The frequency of visits between diplomats of these two countries started to increase in the early 1990s.

1. Diplomatic Ties

Since the early 1990s, Sino-Iranian diplomatic visits have increased. Although China did not become a net importer until 1993, it realized that it was importing more energy from foreign sources prior to that and thus felt that it needed to develop closer political ties with its energy suppliers. Since 1991, various Iranian diplomats have visited China on nine occasions while various Chinese diplomats have visited Iran on seven occasions.¹¹⁸

Additionally, Iran has recently pushed very strongly to develop closer political relations with China in other ways. Since 2004, Iran has been making a strong case to join the Shanghai Cooperation Organization (SCO). The SCO is an organization that was established in 2001 whose main purpose was to resolve border disputes and foster closer cooperation in security matters among its members. The scope and objectives of the SCO has since expanded beyond the original purpose to include fostering closer cultural and economic cooperation.¹¹⁹ Many Iranians view China and the SCO as a counterweight to U.S. hegemony in the region and a potential guarantor of future security.¹²⁰ As one article puts it, China's rise in global power and closer

¹¹⁸ Calabrese, *China and Iran: Mismatched Partners* 6.

¹¹⁹ Lionel Beehner, "The Rise of the Shanghai Cooperation Organization," Council on Foreign Relations, http://www.cfr.org/publication/10883/rise_of_the_shanghai_cooperation_organization.html (accessed January 18, 2007).

¹²⁰ Ibid.

relations with Middle East countries allows Iran to take the approach of “to hell with the United States and the West.”¹²¹

China’s entry into the Middle East allows Iran to have a superpower ally against the United States, thereby reducing the amount of power and influence the United States has in the Middle East. Offensive realists may view the possible expansion of the SCO as China attempting to gain more power and influence in the Middle East at the cost of the United States; however, this is not the case. If China was looking at the SCO as a way to gain more power and influence in the Middle East at the cost of U.S. hegemony, Iran should have been offered full membership within the SCO. Iran is currently associated with the SCO under an “observer” status and is not a full member of the SCO. These actions indicate that China is hesitant about expanding its influence in the Middle East; however, SCO members may still provide Iran with invaluable support. The Iranian nuclear crisis is a good example of how the rise in China’s influence in the Middle East can pose a challenge to U.S. policies and objectives.

2. Nuclear Dilemma

Much controversy has brewed over Iran’s quest for nuclear technology in the political realm. Iran maintains that its pursuit for nuclear technology is for peaceful reasons. On the other hand, the United States and other European nations maintain that Iran is attempting to acquire the technology to develop nuclear weapons. The main parties that have posed a challenge to the U.S.’s efforts are China and Russia. China’s stance on Iran’s nuclear program has consistently been that the issue must be “resolved peacefully without coercion.” Up until 2006, China has consistently stated that it felt the Iran nuclear crisis should be settled within the International Atomic Energy Agency (IAEA). China preferred to have this matter settled within the IAEA because it did not want to be put in the position of having to choose between Iran and the United States should the issue be referred to the United Nations Security Council (UNSC).¹²² Despite its efforts, China could not convince Iran to moderate its stance on the nuclear issue and ultimately referred Iran to the UNSC.

¹²¹ Seymour M. Hersh, "The Iran Plans," *The New Yorker*, April 17, 2006, , http://www.newyorker.com/fact/content/articles/060417fa_fact (accessed January 18, 2007).

¹²² Yitzhak Shichor, "China's Voting Behavior in the UN Security Council," *China Brief*, September 06, 2006, 5, http://www.jamestown.org/images/pdf/cb_006_018.pdf (accessed January 19, 2007).

If China wanted to increase its influence in the Middle East by strengthening Iran to challenge U.S. hegemony in the Middle East as offensive realists may assert, it would most likely oppose any actions that would: (a) cause economic damages to Iran, and (b) prevent Iran from fulfilling its nuclear ambitions. This has not been the case. Despite all the indications that a strong Sino-Iranian relations exists, China has shown a willingness to take actions against Iranian interests which have included: (a) its decision to refer Iran to the UNSC on January 31, 2006, (b) its UNSC vote on December 23, 2006 to impose sanctions on Iran, and (c) its March 15, 2007 decision to support additional sanctions on Iran. These actions may indicate that China is losing its patience with Iran's "intransigence" and "inflexibility" over the nuclear issue. China may also be concerned with the effects that Iran's actions may have on the international nonproliferation regime.¹²³

Further indicating China's split with Iran over this nuclear issue, China has openly stated that it is against Iran possessing nuclear weapons on numerous occasions. Two such incidents are listed below:

- January 5, 2007: China's President Hu Jintao advised Iran's Secretary of National Supreme Security Council Ali Larijani to take a "serious response" to the U.N. sanctions further indicating that China's stance on nuclear proliferation is similar to the United States'. During the meeting, Hu and China's State Counselor Tang Jiaxuan both pointed out to Larijani that the UNSC Resolution imposing sanctions on Iran was unanimous, which included China.¹²⁴
- January 9, 2007: During Israeli Prime Minister Ehud Olmert's visit to China in January 2007, Chinese Premier Wen Jiabao publicly stated that "Resolution 1737 adopted unanimously by the UN Security Council members reflects the concerns of the international community about the Iranian nuclear issue." This runs counter to Iran's assertion that the UNSC resolution is a "mere piece of paper."¹²⁵

Further motivating China to take actions against Iran in the nuclear issue may be its relations with Saudi Arabia and the United States. China, being economically dependent on the United States, Saudi Arabia, and Iran, must balance the Sino-Iranian

¹²³ M. K. Bhadrakumar, "China's Middle East Journey Via Jerusalem," *Asia Times*, http://www.atimes.com/atimes/Middle_East/IA13Ak02.html (accessed January 23, 2007).

¹²⁴ Edward Cody, "China Advises 'Serious Response' by Iran to U.N. Sanctions," *Washington Post*, sec. A, January 06, 2006, <http://www.washingtonpost.com/wp-dyn/content/article/2007/02/15/AR2007021500728.html> (accessed January 10, 2007).

¹²⁵ Bhadrakumar, "China's Middle East Journey Via Jerusalem."

relationship with the Sino-U.S. and Sino-Saudi relationships. These actions further align China's actions with the economic interdependence theory.

Ever since the 1979 Iranian revolution, Iran and Saudi Arabia have had hostile relations. Much of this hostility involves the two sects of Islam that these nations are associated with. Saudi Arabia is a Sunni country while Iran is a Shi'a country. Further stroking the flames of this rivalry was Iran's attempt to export the revolution to other parts of the Middle East, including Saudi Arabia, following Grand Ayatollah Khomeini's rise to power.¹²⁶ Saudi Arabia has explicitly stated that it is against Iran possessing nuclear weapons. Because China views both Saudi Arabia and Iran as important energy and trade partners, it is playing a delicate balancing act to not only appease both sides in order to remain in their good graces, but also to prevent a scenario which may result in an armed conflict involving both parties; therefore, the preservation of the status quo and a peaceful Middle East is China's best option in terms of preserving its Middle Eastern economic interests. The Sino-Saudi relationship will be discussed in more detail in Chapter IV.

Because China is also dependent on the U.S. economy, it must also balance the Sino-U.S. relationship with the Sino-Iranian relationship. While energy security is viewed with the utmost importance, China also views its relationship with the United States with great importance. Although Sino-Iranian trade has grown at an impressive rate reaching \$9.5 billion in 2005 and is expected to exceed \$10 billion by 2008, it pales in comparison to the \$202 billion Sino-U.S. bilateral trade in 2005.¹²⁷ Ever since 2004, Chinese officials have made it clear during official visits that China would not sacrifice its trade interests with the West (particularly the United States) over Iran's nuclear ambitions.¹²⁸ While it is clear that China values the Sino-U.S. relationship over the Sino-

¹²⁶ Mike Shuster, "Export of Iran's Revolution Spawns Violence," National Public Radio, <http://www.npr.org/templates/story/story.php?storyId=7392405> (accessed February 23, 2007). – Excellent analysis of the Saudi-Iranian relations provided by Vali Nasr.

¹²⁷ Sanam Vakil, "Iran: Balancing East Against West," *The Washington Quarterly*, Autumn, 2006, 55, http://www.twq.com/06autumn/docs/06autumn_vakil.pdf (accessed January 18, 2007).; Kaveh L. Afrasiabi, "China's Energy Insecurity and Iran's Crisis," Asia Times Online, http://www.atimes.com/atimes/Middle_East/HB10Ak01.html (accessed January 18, 2007).

¹²⁸ Kaveh L. Afrasiabi, "China's Energy Insecurity and Iran's Crisis," Asia Times Online, http://www.atimes.com/atimes/Middle_East/HB10Ak01.html (accessed January 18, 2007).

Iranian relationship, China's ultimate goal is to prevent an armed conflict between the two countries since they are both considered to be vital economic partners. China's actions in the UNSC reflect the desire to avoid that scenario by cooperating with both sides.

Additionally limiting China's support for Iran is the value it places on the perception that the international community has of China. China would like to be viewed as a "responsible stakeholder" in global affairs and they have shown that they are willing to vote against Iranian interests in the UNSC as opposed to simply abstaining from casting its vote like it had during the first Persian Gulf War in 1990.¹²⁹ There have also been other indications that the Chinese government is taking the role of the "responsible stakeholder" seriously. While the state-owned Chinese oil companies have been looking to reach numerous energy agreements with Iran and used the Iranian nuclear crisis as a means to get favorable energy prices from the Iranians, the oil companies have met some resistance from the Chinese government to approve these deals due to the international political pressures it would face. This may indicate that the Chinese government is displeased with its state-owned energy companies for touting energy agreements that involve Iran.¹³⁰

3. Summary

While there is no denying that Sino-Iranian political relations are becoming closer and that China has acted on Iran's behalf on certain issues pertaining to the Iranian nuclear crisis, China has made it clear that there are limitations on what degree it is willing to stand by Iran against the international community. While offensive realists will assert that China is developing closer political ties with Iran in order to challenge U.S. power and influence in the Middle East, much of its political actions point to the contrary. If China is acting in the offensive realism mold, it would be expected to politically support Iran with the intent of strengthening Iran so that it can challenge U.S.

¹²⁹ Cody, "China Advises 'Serious Response' by Iran to U.N. Sanctions"; Melinda Liu, "Bystander no More," Newsweek, <http://www.msnbc.msn.com/id/11255723/site/newsweek> (accessed January 18, 2007).

¹³⁰ Xu Yihe, "Beijing Irked by Iran Agreements," *Upstream Magazine*, January 5, 2007, <http://www.uofaweb.ualberta.ca/chinainstitute/nav03.cfm?nav03=54869&nav02=43873&nav01=43092> (accessed January 18, 2007).

power and influence in the region. This case study has shown that China's political actions do not support Iran in such a manner.

First, China has limited how intertwined it is willing to become with Iran in the political realm. As stated earlier, despite the overtures by Iran to allow it into the SCO, China has not allowed Iran to become a full member of the SCO. The Chinese decision to not allow Iran into the SCO as a full member is in direct contradiction with the offensive realist framework. If China was behaving in the offensive realism mold, it should be welcoming this opportunity to further expand the Sino-Iranian relationship by entering into a strategic alliance with Iran through the SCO.

Secondly, while China has acted on behalf of Iranian interests in the UNSC during the Iranian nuclear crisis, it has also shown that its support for Iran has its limits. China has taken actions against Iran on the UNSC, which have included imposing limited economic sanctions on Iran. Additionally, China has publicly opposed Iran possessing nuclear weapons. As stated earlier, Chinese officials have publicly warned Iran that it should take the international community and UNSC resolutions seriously. These actions reflect China's belief that it is not in its interests for Iran to possess nuclear weapons. This Chinese stance is not in line with the offensive realism model. A nuclear Iran would certainly mean decreased U.S. hegemony in the Middle East, yet China has refused to stand steadfastly by Iran in the international political arena. Instead, China is attempting to convince Iran to be more accommodating towards the international community regarding its nuclear program.

China's actions in the political realm are driven by economic needs. Should an armed conflict occur in the Middle East between the United States and Iran in the vicinity of the Straits of Hormuz, China realizes that there could be a disruption in energy flow destined to China from the Persian Gulf. Additionally, should the United States carry out a regime change in Iran as it has in Afghanistan and Iraq, China realizes that the massive amount of investments it has made in Iran will likely be lost and it will get nothing in return. Therefore, China is playing the role of moderating both sides in order to avoid an armed conflict. Sensing the economic costs an armed conflict involving Iran may cause, China is seeking to avoid that scenario by: (a) taking actions against Iran in the UNSC,

(b) publicly warning Iran regarding its nuclear program, (c) attempting to convince Iran to be more flexible with the international community over its nuclear program, and (d) voting against any UNSC actions that may cause a regime change in Iran (i.e. severe economic sanctions). These Chinese actions fit more closely aligned with the economic interdependence model.

Thirdly, Chinese officials have warned Iran that China is unwilling to jeopardize its good economic relations with the United States over Iran. This action shows that its decisions are based heavily on economic factors. As stated earlier, China's trade with the United States dwarfs the Sino-Iranian trade and therefore China has made it clear it values good Sino-U.S. relations over the Sino-Iranian relations. This stance highlights China's emphasis on economics and does not fit in well in the offensive realism model.

This case study has shown that China's actions in the political realm are not in line with the offensive realism school of thought. On the contrary, Chinese political decisions are heavily driven by economic reasons. China is seeking to preserve the status quo where: (a) stable Middle Eastern energy flow to China is maintained, (b) China maintains its good economic relations with both the United States and Iran, and (c) China's long term economic interests (energy contracts) are preserved as a result of the current Iranian regime remaining in power. Because China is taking actions to avoid an armed conflict based on mainly economic reasons, its stance more closely aligns with the economic interdependence school of thought rather than the offensive realism school of thought.

E. CONCLUSION

Developing closer relations with a regime that the United States has made clear that it does not want to see remain in power can be viewed as China acting in the offensive realism mold. Contrary to U.S. interests, China's actions are not only sustaining the Iranian regime economically by purchasing Iranian oil and investing in the Iranian economy, but are also supporting the survival of the Iranian regime militarily and politically. Through its support for Iran on the international realm, China's actions may be viewed as an attempt to expand its power and influence in the Middle East at the cost of the United States.

While China's policies do pose challenges to the United States, it is not intentionally pursuing its policies in order to decrease U.S. hegemony in the Middle East. Its actions are driven by economic interests which fit more closely along the line of the economic interdependence school of thought. China is pursuing three specific goals in the Middle East in terms of Sino-Iranian-U.S. relations.

First, China is seeking to increase the survivability and security of Iran because it views Iran as a long term energy supplier. In order to maintain its phenomenal economic growth, China needs long term energy sources which the current Iranian regime provides. As stated earlier, China has signed numerous massive energy contracts with Iran, indicating its intent for Iran to play a vital role in China's future energy security. If Iran is to continue playing a vital role in Chinese energy security, its current regime must remain in power and the Iranian economy must be stable. This case study has shown that China has provided Iran with much needed capital, investments, technologies, arms, and political support to ensure the survival of the Iranian regime.

Offensive realists may view China's actions as an attempt to expand its power and influence in the Middle East by undermining U.S. objectives; however, there have been inconsistencies with China's behavior if it is considered to be purely in the mold of offensive realism. Economically, China has indicated that its economic support for Iran is limited. While China has shown a willingness to take more risks with Sino-Iranian business deals, it has also stated that it expects the Sino-Iranian economic relationship to be on a "basis of equality and mutual benefit." Highlighting China's insistence on profitable business dealings with Iran is the delay in energy contracts to be finalized. The prime example is the Yadavaran energy contract which has not been signed despite the memorandum of understanding being reached over two years ago. China's insistence that Sino-Iranian economic relations must be mutually beneficial is inconsistent with a state behaving in the offensive realism mode. If China is behaving as offensive realists suggest, it should not be overly concerned with profits. Instead it should be more concerned with providing Iran with economic assistance, despite the economic losses it may incur, in order to strengthen Iran to challenge the hegemon. This is not the case.

Secondly, China is seeking to support the Iranian regime while preserving its strong economic ties with the United States and Saudi Arabia. While developing a strong Sino-Iranian relationship is economically important, China realizes that strong Sino-U.S. and Sino-Saudi economic relationships are also vital to its economy.

China's reliance on Saudi oil is one factor that China is taking into account when assessing the Sino-Iranian relations. While China is seeking the survival of the Iranian regime, it also realizes that supporting the Iranian regime too strongly may potentially have a negative affect on Sino-Saudi economic relations. The Saudi kingdom does not want to see a strong Iranian regime due to the fact it does not share a warm relationship with Iran; therefore, in order to protect its economic relationship with Saudi Arabia, China must balance the Sino-Iranian relationship with the Sino-Saudi relationship.

The Sino-U.S. relationship also plays a vital role in influencing the Sino-Iranian relationship. As stated earlier, the Sino-U.S. trade dwarfs the Sino-Iranian trade and China has made it clear to Iran that the Sino-U.S. economic relationship is more important than the Sino-Iranian economic relationship. To maintain strong Sino-U.S. economic relations, China has been active in the Iranian nuclear crisis and has shown the willingness to work alongside the United States to reach a compromise. China has shown a willingness to work against Iranian objectives over the nuclear crisis (i.e. sanctions) and it has also made it publicly clear that it does not believe Iran should possess nuclear weapons. Additionally, China has publicly warned Iran that it should cooperate with the international community with respect to its nuclear program. Based on these actions, it is clear that China desires to moderate the political stances of Iran, the United States, and Saudi Arabia in an attempt to maintain its good economic relationship with all parties involved and to avoid an armed conflict among them.

China is also playing a balancing act between Sino-Iranian and Sino-U.S. relations in the military realm. If China was acting in the offensive realism mold and is attempting to expand its power and influence over the hegemon, it most likely would refuse to cooperate with the United States on matters such as missile and nuclear technologies proliferation. Additionally, because Iran and the United States are on hostile relations, creating a strong Iranian military to decrease and challenge U.S. power and

influence in the Middle East would be in China's interests. China's behavior does not follow this pattern. As this case study has shown, China is providing military support to Iran to increase the likelihood that the current Iranian regime survives; however, China also realizes the importance of the Sino-U.S. economic relationship and has cooperated with the United States regarding the Sino-Iranian military relations by: (a) not supporting a nuclear capable Iran, and (b) limiting the variety and amount of arms it exports to Iran.

Thirdly, an armed conflict in Iran would not only jeopardize Chinese economic interests in Iran but would also raise the price of energy worldwide and may even disrupt the flow of Middle Eastern energy destined for China due to Iran's proximity to the Straits of Hormuz. For this reason, China is seeking to avoid an armed conflict in the Middle East. Specifically with the Iranian nuclear crisis, China has made efforts to resolve the situation short of armed conflict. Despite the fact China approved sanctions against Iran in December 2006, it resisted U.S. pressure to approve more stringent sanctions. Had those harsh sanctions been approved and failed to have the desired result of the Iranian regime giving up its nuclear ambitions, the next step may have been an armed conflict. By resisting U.S. pressure to take harsher measures against Iran, China is attempting to prevent an armed conflict.

China's actions in pursuit of these goals indicate that it is behaving more consistently with the economic interdependence school of thought. There is no denying that China's actions are undermining U.S. policies and objectives in the Middle East. The vital point this case study has made is that China is undermining U.S. objectives not because it seeks to challenge U.S. hegemony, but because U.S. objectives are not in line with Chinese economic and energy security objectives. China realizes that improving the security and survivability of the Iranian regime is in its economic interests, and therefore has provided Iran with limited economic, political, and military support. However, China also realizes the importance of the Sino-U.S. and Sino-Saudi economic relationships and is listening to their concerns regarding the Sino-Iranian relationship. With respect to the Iranian nuclear crisis, it is seeking a peaceful resolution that is satisfactory to all sides which fits more in line with the economic interdependence theory. China's actions to prevent an armed conflict involving Saudi Arabia, Iran, and the United States are a strong indication that it is behaving along the lines of the economic interdependence theory.

Additionally, contrary to the offensive realism school of thought, this ordeal has increased Sino-U.S. cooperation rather than increasing the Sino-U.S. rivalry. In order to avoid a war in the Middle East over the Iranian nuclear crisis, China is working closer with the United States in the UNSC in order to diffuse tensions.

China's behavior and policies also do not fit in the offensive realism mold in other ways. First, China is unwilling to become overly reliant on Iran and has shown restraint in how much support it will provide Iran. While there is no denying China is looking for long term energy sources, it has also been hesitant to become too reliant on Iranian oil and is seeking energy contracts throughout the world. Secondly, China has shown been hesitant to expand the Sino-Iranian political relationship. This is reflected by China's refusal to grant full membership to Iran in the SCO. Additionally, China has shown that it values the perception the international community has of it and does not want to be viewed as "irresponsible" as a result of its staunch support for Iran and its nuclear program. All these reasons are inconsistent with the offensive realism school of thought.

IV. CASE STUDY II: SAUDI ARABIA

A. INTRODUCTION

Ever since the 1940s, the United States and Saudi Arabia have shared a close and mutually beneficial relationship. Economically, Saudi Arabia agreed to play a vital role in providing the United States with energy to meet its demands. Militarily, the United States provided Saudi Arabia with a security guarantee to protect Saudi Arabia from international threats. The security guarantee that the United States provided came to be more vital to the Saudis as time passed, particularly after the Iranian Revolution and also after the invasion of Kuwait by Iraq's Saddam Hussein. This mutually beneficial relationship continues today; however, the attacks on the United States on September 11, 2001 (9/11) have put a strain on this relationship. The fact that 15 out of the 19 hijackers involved in the 9/11 attacks were Saudi natives harmed the U.S.-Saudi relationship. Additionally, the rising anti-American sentiment in the Middle East as a result of the unpopularity of Operation Iraqi Freedom has further damaged the U.S.-Saudi relationship. The strains imposed on the Sino-Saudi relationship have provided China with an opportunity to develop closer relations with Saudi Arabia at the cost of U.S. hegemony. The vital question regarding the Sino-Saudi relationship is whether China is indeed behaving in the offensive realism mold and is taking advantage of the situation to expand its power and influence in the Middle East at the cost of the United States.

This case study will examine the political, military, and economic relationship China and Saudi Arabia has formed over the two decades. The following will be examined in the economic realm: (a) trade, (b) energy relations, (c) investments, and (d) technology transfer. In the military realm, the variety and amount of arms Sino-Saudi arms sales will be examined. Lastly, the evolution of Sino-Saudi political relations over the last two decades will be examined to include each side's perception of the other.

Additionally, this case study will attempt to decipher Chinese intentions in the Middle East regarding Saudi Arabia. If China is acting in the offensive realism mold, it should be attempting to expand its power and influence in Saudi Arabia at every opportunity with the intent to undermine U.S. hegemony. This would include proactive

actions such as: (a) providing Saudi Arabia with massive economic assistance and incentives to develop closer Sino-Saudi economic and political ties with the intent to degrade the U.S.-Saudi relationship, (b) selling Saudi Arabia sophisticated arms and providing security assurances to make Saudi Arabia less dependent on the United States and more so on China, and (c) encouraging Saudi Arabia to shift their close political relations from the United States over to China. If China is acting in the economic interdependence mold, it should be: (a) interacting economically with Saudi Arabia in a manner which makes economic sense (i.e. profitable), (b) interacting militarily with Saudi Arabia in a economically profitable manner and not providing Saudi Arabia with massive amounts of advanced military hardware in order to make Saudi Arabia less reliant on the U.S. security assurances and arms sales, and (c) developing a Sino-Saudi political relationship based on furthering their economic interests and not based on degrading the U.S.-Saudi political relationship.

B. ECONOMIC

Possessing the largest proven oil reserves in the world, Saudi Arabia has come to play a vital role in Chinese energy security. While Sino-Saudi relations can be traced back to the mid-1980s, the two countries did not fully establish diplomatic relations until 1990. Since then, the Sino-Saudi economic relationship has grown at an impressive rate. Saudi Arabia is China's largest trading partner in the Middle East. Between 1990 and 2000, the bilateral trade between the two countries grew ten-fold to reach \$3.098 billion.¹³¹ Bilateral trade between the two countries in 2005 increased further in excess of \$14 billion.¹³²

1. Energy

In 1999, Chinese President Jiang Zemin signed an agreement with Saudi Arabia which in his words "inaugurated a strategic oil partnership." This agreement set forth two things: (a) Saudi Arabia would open its domestic oil and gas markets to China with the exception of upstream oil exploration and production, and (b) China agreed to open its downstream sector to Saudi Aramco. China has recognized Saudi Arabia's importance in

¹³¹ People's Daily, "Chinese State Councilor Hails Chinese-Saudi Economic Ties," *People's Daily*, http://english.peopledaily.com.cn/200204/01/eng20020401_93229.shtml (accessed January 22, 2007).

¹³² Associated Press, "Saudi Arabia, China Ink Energy Deal," Associated Press, <http://www.msnbc.msn.com/id/10989062/> (accessed January 18, 2007).

the global oil market not only because of its proven oil reserves, but also because it is the largest oil exporter in the world as shown in Table 8. Additionally, Saudi Arabia is also one of the largest Middle Eastern oil exporters to China. China's increased reliance on Saudi oil is highlighted by the increase in the amount of Saudi oil China has imported over the last decade. In 1995 Saudi Arabia was China's 25th largest exporter of oil but in 2005 it was the largest supplier of oil to China exporting more than 400,000 barrels/day.

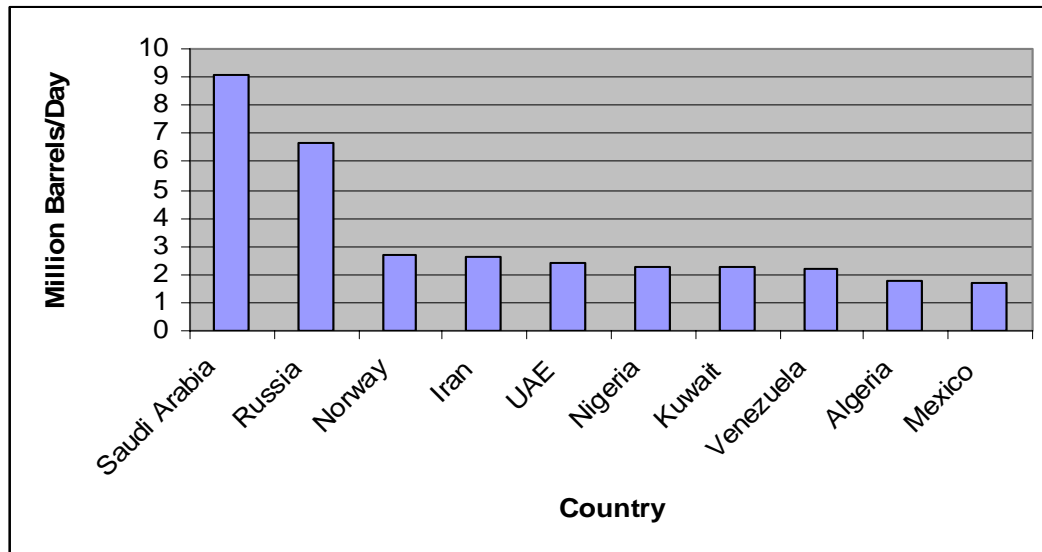


Table 8. 2005 Top World Oil Net Exporters
Source: Energy Information Administration¹³³

China's energy ties with Saudi Arabia will most likely expand further in the future, particularly in light of China's decision to develop a strategic oil reserves. These reserves are projected to hold a 90 days supply of oil for China based on projected future import rates.¹³⁴ China's plan to develop its strategic oil reserves involves three phases. The first phase is projected to be completed by 2008, and encompasses four storage sites (two in the Zhejiang province, one in the Shandong province, and one in the Liaoning province). These four storage sites are anticipated to hold over 102 million barrels. The specific details for phases two and three have yet to be released, but each phase is

¹³³ Energy Information Administration, "Top World Oil Net Exporters: 2005," U.S. Department of Energy, http://www.eia.doe.gov/emeu/cabs/topworldtables1_2.html (accessed March 15, 2007).

¹³⁴ Christopher J. Neely, "China's Strategic Petroleum Reserve: A Drop in the Bucket," Federal Reserve Bank of St. Louis, <http://research.stlouisfed.org/publications/net/20070101/cover.pdf> (accessed February 28, 2007).

planned to increase the strategic oil reserve by over 205 million barrels which will increase the total Chinese strategic oil reserve to over 500 million barrels.¹³⁵ One of the storage bases in the Zhejiang province was completed in September 2006.¹³⁶

Saudi Arabia may play a vital role in filling China's strategic oil reserves as opposed to Iran, Libya, and Sudan, for which China feels have additional risks associated with them.¹³⁷ According to reports, China has been attempting to negotiate a deal with the Saudis to use Saudi oil to fill its strategic oil reserves as early as April 2006.¹³⁸ This is significant because China's strategic oil reserves may bring Sino-Saudi relations even closer. Saudi Arabia has the largest production capacity in the Middle East and has the capability to increase its oil production past its OPEC quota in order to help China. Should Saudi Arabia decide to produce an additional half a million barrels a day for the next three years, that alone would provide China with a three months' supply of oil within its strategic oil reserves.¹³⁹ This would be possible since as of December 2006, Saudi Arabia was not operating at full oil production capacity. In December 2006 and January 2007, Saudi Arabia produced 8.8 million barrels/day despite its full production capacity being 10.5–11 million barrels/day.¹⁴⁰ Additionally, Saudi Arabia is looking to expand its oil production capacity. Saudi Aramco's Senior Vice President of gas operations, Khalid al-Falih, stated that Saudi Arabia is in the process of expanding its oil production capacity to 12 million barrels/day by 2009 and "if the markets justify it" is

¹³⁵ Reuters, "China's Strategic Oil Reserve Plans," Reuters, <http://www.uofaweb.ualberta.ca/chinainstitute/nav03.cfm?nav03=49900&nav02=43610&nav01=43092> (accessed January 18, 2007).

¹³⁶ Xinhua News Agency, "China's First Petroleum Storage Base Completed," *Xinhua News Agency*, <http://www.uofaweb.ualberta.ca/chinainstitute/nav03.cfm?nav03=51045&nav02=43610&nav01=43092> (accessed January 18, 2007).

¹³⁷ Jianjun Tu, "The Strategic Considerations of the Saudi-Sino Oil Deal," *The China Brief*, February 15, 2006, 3-5, http://www.jamestown.org/images/pdf/cb_006_004.pdf (accessed January 18, 2007).

¹³⁸ David Winning, "Beijing Looks to Saudis to Fill Strategic Oil Reserves," *Wall Street Journal*, <http://www.uofaweb.ualberta.ca/chinainstitute/nav03.cfm?nav03=47264&nav02=43610&nav01=43092> (accessed January 18, 2007).; Agence France-Presse, "China Acts to Secure Oil Reserves," Agence France-Presse, http://www.chinadaily.com.cn/bizchina/2006-04/25/content_576151.htm (accessed January 22, 2007).

¹³⁹ Bhadrakumar, "China's Middle East Journey Via Jerusalem."

¹⁴⁰ Energy Information Administration, "OPEC Oil Production," U.S. Department of Energy, <http://www.eia.doe.gov/emeu/steo/pub/3atab.html> (accessed February 28, 2007).

able to further increase its oil production capacity to 15 million barrels/day in the future. He also stated that by 2006, Saudi Arabia will have 90 drilling rigs in operation which is double the number that it operated in 2004.¹⁴¹ As a result of Saudi Arabia's ability to export massive amounts of oil, China has already provided Saudi Arabia with privileges other countries do not have in terms of collaboration over the creation of the Chinese strategic oil reserves.¹⁴²

This development is significant because increasing the Saudi oil imports by ½ million barrels/day would double the current amount of oil that China imports from Saudi Arabia. Should China look to Saudi Arabia in the future to fill its strategic oil reserves, then Sino-Saudi economic ties will vastly expand which would not only strengthen the Sino-Saudi economic relationship but would also have implications in other realms of the Sino-Saudi relationship (i.e. political). This could have repercussions on the U.S.-Saudi relationship. Because the Chinese would be importing nearly as much Saudi oil as the United States, Saudi Arabia may look at China as an equally valuable customer; hence, the United States may lose some influence in how it can influence Saudi energy policies.

In addition to purchasing energy from Saudi Arabia, China has expressed interest in entering into energy exploration contracts with Saudi Arabia. In April 2006, China was awarded a contract to explore and produce natural gas in the Rub al-Khali Basin in Saudi Arabia.¹⁴³ The block that China was awarded covers 24,109 km² and it stated that initial investments may reach in excess of \$300 million.¹⁴⁴ Over the next decade, the amount of Chinese investments in Saudi Arabia is expected to grow.¹⁴⁵

¹⁴¹ Energy Information Administration, "Country Analysis Brief: Saudi Arabia," U.S. Department of Energy, <http://www.eia.doe.gov/emeu/cabs/saudi.html> (accessed February 28, 2007).

¹⁴² Bhadrakumar, "China's Middle East Journey Via Jerusalem."

¹⁴³ Mamoun Fandy, *Energy Security: Implications for U.S.-China-Middle East Relations - China Vs U.S.: A View from the Arab Perspective* (Houston, TX: The James A. Baker III Institute for Public Policy of Rice University, 2005), 3, http://www.rice.edu/energy/publications/docs/SIIS_MFANDY_ChinaUSArabWorld_071805.pdf (accessed January 18, 2007).

¹⁴⁴ Andrea R. Mihailescu, "Saudi Arabia Minimizes Dependence on Oil," United Press International, <http://www.upi.com/archive/view.php?archive=1&StoryID=20040818-050158-7407r> (accessed January 18, 2007).

¹⁴⁵ Javid Hassan, "Saudi-Sino Relations Poised for further Expansion," Arab News, <http://www.arabnews.com/?page=15§ion=0&article=89621&d=9&m=2&y=2007> (accessed February 27, 2007).

While there is no denying that China and Saudi Arabia have extensive energy ties, it is clear that China is attempting to limit its ties to Saudi Arabia from becoming too extensive. Despite Saudi Arabia having the largest proven oil reserves in the world, China has shown a desire to keep its energy sources diversified. In 2006, Angola took over as the number one oil exporter to China.¹⁴⁶ Additionally, with respect to China's efforts to build strategic oil reserves, it is still looking at a variety of possibilities to fill its reserves. The Chinese do not seem to be placing much urgency on filling its oil reserves for many reasons. First, there is domestic and international concern as to the effects on oil prices should China decide to fill its strategic oil reserves at a rapid pace. Instead, China is taking a more patient approach by filling its strategic oil reserves gradually over many years. Secondly, China is unwilling to pay a high price for oil that will be used to fill its strategic oil reserves. Zhang Guobao, the Vice Minister of the Chinese State Development and Reform Commission, stated that "it would be a great financial risk for China to buy oil at the international market for its strategic reserve program as the current global oil price has been fluctuating at a high level."¹⁴⁷ China is content to wait until oil prices drop to what they consider an acceptable level prior to importing oil into their strategic oil reserves.¹⁴⁸ In the meantime, China has started to fill its first strategic oil reserve using domestic oil instead of imported oil.¹⁴⁹ China also may be looking to fill its strategic oil reserves with overseas oil assets that Chinese firms own stakes in.¹⁵⁰

¹⁴⁶ Energy Information Administration, "Country Analysis Brief: China," U.S. Department of Energy, <http://www.eia.doe.gov/emeu/cabs/China/Oil.html> (accessed March 7, 2007).

¹⁴⁷ Embassy of the PRC in the United States, "China Will Not Import Oil to Fill Strategic Reserves," Embassy of the PRC in the United States, <http://www.china-embassy.org/eng/gyzg/t211737.htm> (accessed January 18, 2007).

¹⁴⁸ Chen Aizhu, "China Aims to Add Oil to Reserves when Prices Low," Reuters, http://today.reuters.co.uk/news/articleInvesting.aspx?type=oilRpt&storyid=2006-11-28T044035Z_01_PEEK135557_RTRIDST_0_CHINA-OIL-STRATEGIC-RESERVES-UPDATE-1.XML&s=g (accessed January 15, 2007).

¹⁴⁹ Hong Kong AFP. "China Begins Filling First Strategic Oil Reserve Facility in Zhenhai City." Hong Kong AFP. Report Number: CPP20061009052030, <https://www.opensource.gov> (accessed January 23, 2007).

¹⁵⁰ Wang Ying, "First Strategic Oil Reserve due for Completion by August," *The China Daily*, http://www.chinadaily.com.cn/bizchina/2006-06/17/content_619314.htm (accessed January 23, 2007).

2. Investments

While Saudi Arabia's economy is still heavily reliant on natural resources, it does realize the importance of diversification. In October 2002, the Saudi Ministry of Economy and Planning held a symposium to address the issue of Saudi development strategies. Through this symposium, Vision 2020 was developed which is an "expression for the national development strategies of the Kingdom of Saudi Arabia up to the year 2020."¹⁵¹ In Vision 2020, it states that manufacturing is critical to Saudi Arabia's future progress¹⁵² and that the Kingdom of Saudi Arabia has the responsibility to "build up the supply of skills, finance, technology support and infrastructure and other support institutions, so that firms have access to the high-quality factor inputs needed to reach world-class competitiveness."¹⁵³ China is willing to help the Kingdom in both aspects. In recent years, Saudi Arabia has invited China to invest and assist in developing Saudi Arabia's massive infrastructure sector and China has shown some interest in doing so. With Chinese investments, Saudi Arabia hopes to improve its infrastructure which includes a wide range of investment opportunity encompassing gas, water desalination, power generation and railways. These projects are worth an estimated \$624 billion.¹⁵⁴ Outside of investments in Saudi Arabia's infrastructure, China has expressed interest in investing in certain industries within Saudi Arabia. China has already invested over \$4 billion in Saudi Arabia's refinery to produce alumina or aluminum oxide.¹⁵⁵

Saudi Arabia is particularly eager to attract Chinese investments in its petrochemical industry. The governor of the Saudi Arabian General Investment Authority (SAGIA), Amr Al Dabbagh, made clear that Saudi Arabia intends to be a major player in

¹⁵¹ Ministry of Commerce and Industry, *Vision 2020: Strategic Positioning and Industrial Development Vision for the Kingdom of Saudi Arabia* (Riyadh, Saudi Arabia: Kingdom of Saudi Arabia, 2002), 1, <http://www.commerce.gov.sa/industrial/1.%20Report%20on%20Vision%202020.doc>.

¹⁵² Ibid., 2.

¹⁵³ Ibid., 4.

¹⁵⁴ Julian Madsen, "China's Policy in the Gulf Region: From Neglect to Necessity," Power and Interest News Report, http://www.pinr.com/report.php?ac=view_report&report_id=575&language_id=1 (accessed November 18, 2006).

¹⁵⁵ Amy Gu, "China, Saudi Arabia Eye Fund to Boost Investment," *South China Morning Post*, November 8, 2006, <http://www.uofaweb.ualberta.ca/chinainstitute/nav03.cfm?nav03=52539&nav02=43875&nav01=43092> (accessed November 18, 2006).

the global petrochemical industry when he laid out Saudi Arabia's goal of: (a) capturing 15% of the global plastic market by 2020, and (b) increasing ethylene output from 7 to 14 million tones by 2010.¹⁵⁶ Saudi Arabia is attempting to become one of the top three countries in this sector and has on numerous occasions courted Chinese support to develop their petrochemical industry.¹⁵⁷ Al Dabbagh was confident that Saudi Arabia would reach its goals to the point that he stated "China should invest in Saudi Arabia's petrochemical sector or risk becoming a victim of the Gulf nation's aggressive bid to use its energy reserves to become an industry leader."¹⁵⁸

In the Saudi kingdom's eyes, China is an extremely attractive partner to solicit petrochemical investments from because it is an export-oriented country, and much of their exported goods use petrochemicals (i.e., plastics, fertilizers, detergents, resins). The greater the amount of Saudi petrochemicals the Chinese use to produce its export products, the greater the Saudi profits; therefore, as Chinese global exports grow so will Saudi profits. In Al Dabbagh's words, Saudi Arabia needs an investor "who could also push the product, and they (the Chinese) have markets that can take these products. they have the distribution channels."¹⁵⁹ For the Chinese, it does make economic sense to invest in the Saudi petrochemical industry. It would be cheaper for Chinese companies to process petrochemicals in Saudi Arabia and then shipping it to China rather than shipping the raw materials and resources to China and then processing petrochemicals there.¹⁶⁰

Saudi Arabia is looking for foreign investments in excess of \$50 billion over the next 15-20 years for their petrochemical industry. While there has been limited Sino-Saudi cooperation in the petrochemical field, China has yet to substantially invest in Saudi's petrochemical industry despite Saudi Arabia's aggressive efforts to solicit

¹⁵⁶ Emma Graham-Harrison, "Saudi Seeks China Cash for Petchem Expansion," *Reuters* November 2, 2006, <http://www.uofaweb.ualberta.ca/chinainstitute/nav03.cfm?nav03=52379&nav02=43875&nav01=43092> (accessed December 2, 2006).

¹⁵⁷ Ibid.

¹⁵⁸ Ibid.

¹⁵⁹ Emma Graham-Harrison, "SABIC Says Plans China Petrochem Venture," *Reuters* November 10, 2006, http://today.reuters.com/news/articleinvesting.aspx?view=CN&storyID=2006-11-10T113011Z_01_HKG368122_RTRIDST_0_CHEMICALS-SAUDIARABIA-SABIC.XML&rpc=66&type=qcna (accessed December 2, 2006).

¹⁶⁰ Ibid.

Chinese investments. Interestingly, Saudi companies have instead invested in Chinese petrochemical factories to gain a foothold in the Chinese economy. On November 10, 2006, Saudi Basic Industries Group (SABIC) stated that it intends to form a joint venture in China to build petrochemical facilities in China.¹⁶¹ However, if the demand for Chinese goods and petrochemicals increases and the Chinese do determine that it would be more cost-efficient to produce petrochemicals in Saudi Arabia, great potential exists for Chinese investments in Saudi Arabia's petrochemical industry in the future.

The Sino-Saudi relationship in this realm is mutually beneficial. While Chinese companies have an opportunity to profit from investing in various industrial projects, Saudi Arabia would also be benefiting from whatever Sino-Saudi economic arrangements it enters by receiving: (a) Chinese investments and technology for its industries, and/or (b) Chinese assistance in developing the necessary infrastructure that Saudi industries rely on to further grow and become competitive. The amount of Chinese investments into Saudi Arabia is projected to increase in the future as China and Saudi Arabia are studying a plan to establish a fund to promote investment between the two countries.¹⁶² It is important to note that despite the fact there is great potential in this realm of the Sino-Saudi relationship, other than the \$4 billion investment China made in Saudi Arabia's alumina or aluminum oxide refineries, there has not been much Sino-Saudi interaction as of yet. While each side is taking the first steps for the Sino-Saudi relationship to grow in this area there have not been any substantial investments.

3. Technology Transfer

Since 2004, China and Saudi Arabia have signed numerous agreements designed to be mutually beneficial. A highpoint in Sino-Saudi relations was reached in April 2006 when King Abdullah made his first visit to China since Sino-Saudi relations were established. During this visit, China and Saudi Arabia signed a set of five agreements expanding Sino-Saudi cooperation. These agreements encompassed oil, natural gas, minerals, trade, and technical matters.¹⁶³

¹⁶¹ Graham-Harrison, "SABIC Says Plans China Petrochem Venture."

¹⁶² Ibid.

¹⁶³ Harsh V. Pant, "Saudi Arabia Woos China and India," *The Middle East Quarterly* 13, no. 4 (Fall, 2006), 1, <http://www.meforum.org/article/1019> (accessed November 18, 2006).

Saudi Arabia realizes that the key component to future economic prosperity is for its industries to be able to produce goods which are not only competitive in the domestic market but also competitive in the international market. To this extent, Vision 2020 states that "Research shows that participation in internationally competitive markets is the best way of building economically significant human capital because it leads to faster technological learning and innovation through cluster networks. Hence the establishment of international linkages through links with foreign firms and international R&D centers is essential for faster domestic innovation and technological learning."¹⁶⁴ The technical and trade cooperation agreements that China and Saudi Arabia signed in 2006, while the exact details have not been released, has positioned China to play a vital role in not only providing the necessary financial support for Saudi industries, but also in providing Saudi workers with new skills based on technology and knowledge transfer.

While Saudi Arabia realizes the importance of technology transfer, there has been little Sino-Saudi interaction here. There is not much data available regarding this topic suggesting that there has not been much Sino-Saudi interaction in this realm as of yet. As stated earlier, while China and Saudi Arabia seem to be taking the first steps to increase the Sino-Saudi technology transfer by signing cooperation agreements in April 2006, a strong Sino-Saudi relationship in this realm is yet to be seen. Neither side is aggressively pushing the other for more cooperation in this area.

4. Summary

In summary, Chinese economic policies are not directed at increasing its power and influence in Saudi Arabia at the cost of the United States as offensive realists may contend. China is taking a cautious approach as to the extent of the Sino-Saudi relationship which does not fit in well with the offensive realism school of thought. China is looking at Saudi Arabia as a long term energy source and as an opportunity to further expand economically - not as a state that it wishes to wrestle away from U.S. power and influence. Because China is not using its economic power to further an international political agenda to decrease U.S. power and influence, China's economic actions closely aligns with the economic interdependence model. This is illustrated by three developments.

¹⁶⁴ Pant, "Saudi Arabia Woos China and India," 2

First, China is not providing Saudi Arabia with massive economic benefits to develop a closer Sino-Saudi relationship as the United States and Soviet Union did to its proxy states during the Cold War. China's economic policies are geared primarily towards addressing its energy security and possibly taking advantage of economic opportunities within Saudi Arabia. China is not looking to reduce U.S. power and influence in Saudi Arabia through its Sino-Saudi economic ties, and in fact, is taking a cautious approach to the Sino-Saudi relationship. This is indicated by the lack of: (a) Chinese investments in Saudi Arabia, and (b) Sino-Saudi cooperation in technology sharing, both of which may further expand Sino-Saudi relationship at the cost of the U.S.-Saudi relationship.

Secondly, China has shown a reluctance to become too heavily invested in Saudi Arabia. While Saudi Arabia provides China with energy and vast economic opportunities, it has not taken full advantage of those economic opportunities to the extent it has with Iran. This may be for two reasons: (a) Saudi Arabia may not need Chinese capital as much as Iran does due to its massive oil revenues and its strong ties to the United States, and (b) China does not see any urgency in assisting Saudi Arabia since it does not face an international threat as Iran does. Interestingly, Saudi Arabia is the side aggressively courting Chinese investments (particularly in the petrochemical industry) and China is the side restraining its investments. This does not fit well in the offensive realists' model because the Saudis courting Chinese investments in the petrochemical industry can be viewed as an opportunity for China to gain more power and influence in Saudi Arabia. Instead, China has so far refused to take advantage of this opportunity. The lack of Sino-Saudi activity in this realm indicates that China is selective about what investments it wants to make in Saudi Arabia. This behavior fits more consistently with the economic interdependence model. China is not arbitrarily investing in Saudi Arabia in order to further the Sino-Saudi relationship at the cost of the U.S.-Saudi relationship. China invests in Saudi Arabia only if it feels that the investment is in its economic interests.

Thirdly, China is also wary about becoming too reliant on Saudi oil and has attempted to diversify its oil suppliers globally. In 2006, China decided to make Angola its number one oil supplier. This behavior also does not fit well in the offensive realism model. If China was indeed acting in the offensive realism model, it should be

aggressively pursuing closer economic ties with Saudi Arabia. Increasing its Saudi economic ties by importing more Saudi oil may be viewed as one way China could expand its power and influence in Saudi Arabia at the cost of the hegemon. China has not done so and is instead taking a more cautious approach.

C. MILITARY

Due to Saudi Arabia's relations with the United States, Sino-Saudi military relations have been very limited. Dating back to the Cold War, the United States has viewed the security of Saudi Arabia as part of its national interests. The United States followed through with its promise to protect the Saudi kingdom in 1989. When Iraq invaded Kuwait, the United States sent its military to the Persian Gulf to protect the Saudi kingdom and also to force Saddam Hussein to retreat from Kuwait. On the other hand, China does not have the same capability to project power globally as the United States does and therefore cannot provide the same security assurances against the international threats Saudi Arabia faces, particularly against Shi'a Iran. Even if the Chinese had the capability to project power globally, the Saudis may question the reliability of China's security assurances due to the long relations China has with Iran. Additionally, the Saudis view China as a poor substitute for U.S. support against the other threats the Saudi kingdom faces on the domestic front from Islamic insurgents.¹⁶⁵

In addition to the security assurances provided by the United States, Saudi Arabia also purchases a substantial amount of arms from the United States further expanding U.S.-Saudi military relations. Between 1997 and 2004, Saudi Arabia ordered \$7.3 billion worth of U.S. arms while the United States delivered \$22.9 billion worth of military equipment over the same time period.¹⁶⁶ This realm of U.S.-Saudi relations is expanding. In July 2006, President Bush notified Congress that he had approved a number of arms deals to Saudi Arabia that may be worth in excess of \$9 billion.¹⁶⁷ Saudi Arabia sought

¹⁶⁵ John Calabrese, "Saudi Arabia and China Extend Ties Beyond Oil," *The China Brief*, September 27, 2005, 5, http://www.jamestown.org/images/pdf/cb_005_020.pdf (accessed January 24, 2007).

¹⁶⁶ Alfred B. Prados and Christopher M. Blanchard, *Saudi Arabia: Current Issues and U.S. Relations* (Washington D.C.: Congressional Research Service, 2006), 15, <http://fas.org/sgp/crs/mideast/RL33533.pdf> (accessed November 18, 2006).

¹⁶⁷ Ibid., 16; Defense Security Cooperation Agency, Transmittals No. 06-25, 06-26, 06-31, 06-36 and 06-39, July 2006. Available at: http://www.dsca.mil/PressReleases/36-b/36b_index.htm (accessed January 24, 2007).

these deals to supplement the Saudi Arabian National Guard in light of the increased regional tensions and counterterrorism requirements.¹⁶⁸ These deals included advanced military equipment such as Blackhawk helicopters and various light armored vehicles.

Due to the security assurances provided to Saudi Arabia by the United States and also due to the substantial sale of U.S. military equipment to Saudi Arabia, there has been little reason for Sino-Saudi military relations to expand. The unfavorable experience Saudi Arabia had with China in the CSS-2 missile system deal may also play a role in explaining the minimal Sino-Saudi military relations. During the late 1980s, Saudi Arabia reached an agreement with China to purchase 36 CSS-2 Intermediate Range Ballistic Missiles (IRBMs). China intended the CSS-2 IRBM system to be its main regional nuclear weapon system. It was designed to target U.S. bases in Japan, South Korea and the Philippines.¹⁶⁹ With a range of 3000 km, Saudi Arabia is able to target any country in the Middle East region as well as parts of India. The downside to the CSS-2 missile system is twofold: (a) it is an extremely cumbersome system, and (b) the accuracy of the CSS-2 is less than desirable. First, the CSS-2 system requires dozens of vehicles and hundreds of personnel to launch its missiles. Additionally, the fuel that the CSS-2 missile uses is highly corrosive and can be fatal if inhaled. Should Saudi Arabia decide to use the missile system, it would most likely need assistance from Chinese personnel due to the complexity of the system. Saudi Arabia also needs Chinese personnel to maintain the missile system, which is stored in two facilities south of Riyadh.¹⁷⁰ Secondly, because the missiles were designed to carry a nuclear warhead the accuracy of the missile leaves much to be desired. As a result, the effectiveness of the missile when it carries a conventional warhead is extremely limited. Many experts believe that without a nuclear warhead the missile system is basically useless and the Saudis were misled when purchasing this antiquated missile system. This experience may have made the Saudis

¹⁶⁸ Prados, *Saudi Arabia: Current Issues and U.S. Relations*, 16.

¹⁶⁹ Thomas Woodrow, "The Sino-Saudi Connection," *The China Brief*, October 24, 2002, http://www.jamestown.org/publications_details.php?search=1&volume_id=18&issue_id=661&article_id=4680 (accessed November 14, 2006).

¹⁷⁰ Ibid.

more cautious about purchasing arms from China, particularly when the United States is also willing to sell arms to Saudi Arabia.¹⁷¹

In the future, there is potential for the Sino-Saudi military relationship to expand. Although the details of the agreement have not been released, China and Saudi Arabia signed an agreement to promote Sino-Saudi security cooperation in April 2006. Additionally, while the Saudis may have had an unfavorable experience with China over the CSS-2 missiles deal, Saudi Arabia is keenly aware of the amount of military equipment China is exporting to Iran. Some experts have acknowledged the possibility of Saudi Arabia purchasing arms from China in order to curtail Chinese arms exports to Iran, if not lure China away from Iran.¹⁷² A former assistant director in the Saudi General Intelligence Directorate stated, "Clearly, we (Saudis) are going to have to give the Chinese numerous incentives for them to stop supplying the Iranians with those long-range missiles. One way is clearly going to have to be a redirection of Saudi purchases to also include Chinese military equipment. The usual suppliers (U.S., England, and France) won't lose importance, of course."¹⁷³

In summary, as a result of the Saudi-U.S. relations, China and Saudi Arabia have not had close military relations. There are two primary reasons for this: (a) the United States has provided Saudi Arabia with advanced military equipment to strengthen the Saudi military and National Guard against domestic threats such as the Islamic insurgents, and (b) the United States has provided security assurances to Saudi Arabia that China cannot provide. The Chinese military does not have the capability to project military power globally as the United States does and is not expected to achieve that capability any time in the near future.¹⁷⁴

¹⁷¹ Woodrow, "The Sino-Saudi Connection."

¹⁷² Nawaf E. Obaid and others, *The Sino-Saudi Energy Rapprochement: Implications for US National Security*, 34.

¹⁷³ Ibid.

¹⁷⁴ U.S.-China Economic and Security Review Commission, *China's Role in the World: Is China a Responsible Stakeholder?* 2006, 4, http://www.uscc.gov/hearings/2006hearings/written_testimonies/06_08_3_4wrts/06_08_3_4_calabrese_john_statement.pdf (accessed January 24, 2007).

While China may be limited in the military assistance it can provide to Saudi Arabia, if China was acting in the offensive realism mold it should still be attempting to undermine the U.S.-Saudi military ties in order to further the Sino-Saudi military ties. This has not been the case. Instead, there was only one instance where China sold limited military equipment to Saudi Arabia during the 1980s and there have not been any significant Sino-Saudi arms deals since then. This lack of activity in the Sino-Saudi military relationship may be explained by the fact that since the stability and preservation of current Saudi royal family is in both Chinese and U.S. interests, China is content with the strong U.S.-Saudi military relationship. To put more directly, the Chinese may view the situation as the United States being obligated to protect Chinese interests (Saudi oil) without China having to take an economic hit. China's behavior in this light would definitely be in line with the economic interdependence model. China is content with the status quo because it benefits or preserves Chinese economic interests and therefore will not take any actions which may change it. While the Sino-Saudi military relations has the potential to expand in the future (partially as a result of the growing Iranian threat and the Sino-Saudi security agreement signed in April 2006), China and Saudi Arabia have yet to take the first step.

D. POLITICAL

The United States has traditionally had strong political relations with Saudi Arabia. While each side has had their differences in opinion, the common objectives of defeating communism, containing Iran, and the extensive Sino-U.S. economic ties have kept the two countries allied. After the fall of the Soviet Union, the U.S.-Saudi relationship lost a vital pillar on which it was based on thereby putting a strain on the relationship. The post 9/11 era has brought on additional strains on the U.S.-Saudi relationship. As stated earlier, the tragedy of 9/11 and the unpopularity of Operation Iraqi Freedom have all posed challenges to the U.S.-Saudi relationship which has provided China with an opportunity to expand Sino-Saudi relations at the cost of the U.S.-Saudi relations.

1. Diplomatic Ties

The Sino-Saudi relationship, being established in 1990, is relatively new when compared to the U.S.-Saudi relationship. Ever since relations were established, there have

been a steady flow of diplomatic visits conducted by both sides. Between 1990 and 2002, Saudi Arabia officials have made 22 diplomatic visits to China while Chinese officials have made 21 diplomatic visits to Saudi Arabia during the same timeframe.¹⁷⁵

The Sino-Saudi relationship further expanded during Chinese President Jiang Zemin's state visit to Saudi Arabia in 1999. During this meeting, China and Saudi Arabia signed an agreement which "inaugurated a strategic oil partnership." 2006 brought about a renewed effort to develop closer Sino-Saudi relations. The visits between President Hu Jintao and Saudi King Abdullah bin Abdul-Aziz in 2006 and the impressive array of new agreements between the Saudi and Chinese governments indicate such a trend. During King Abdullah's visit to China in January 2006, China and Saudi Arabia signed numerous agreements for cooperation in energy (petroleum, mineral, and natural gas), trade, and professional training/technical matters.¹⁷⁶ This visit carried special significance due to two reasons: (a) it was King Abdullah's first visit outside the Middle East since he took the throne in 2005, and (b) it was the first time a Saudi king had made a state visit to China.¹⁷⁷ A short three months later, President Hu Jintao made a diplomatic visit to Saudi Arabia further highlighting the seriousness of Sino-Saudi relations. Having consecutive head-of-state exchanges in such a short time is considered unusual. Additionally, President Hu was only the second foreign president to address the Saudi Consultative Council in history (after Jacques Chirac).¹⁷⁸ During this visit, the Sino-Saudi relationship expanded further with the signing of agreements to cooperate in energy exploration, security, and health care.¹⁷⁹

¹⁷⁵ Ministry of Foreign Affairs, "Bilateral Relations: Saudi Arabia," People's Republic of China, <http://www.fmprc.gov.cn/eng/wjlb/zzjg/xybfs/gjlb/2878/default.htm> (accessed January 24, 2007).

¹⁷⁶ Asia Times, "China, Saudi Arabia Extend Energy Ties," *Asia Times*, http://www.atimes.com/atimes/China_Business/HA25Cb04.html (accessed January 24, 2007).

¹⁷⁷ Madsen, *China's Policy in the Gulf Region: From Neglect to Necessity*, 1

¹⁷⁸ John Keefer Douglas, Matthew B. Nelson and Kevin Schwartz, *Fueling the Dragon's Flame: How China's Energy Demands Affects its Relationships in the Middle East* (Washington D.C.: U.S.-China Economic and Security Review Commission, 2006), 15, http://www.uscc.gov/researchpapers/2006/China_ME_FINAL.pdf (accessed January 22, 2007).

¹⁷⁹ Ibid, 15.; Hassan M. Fattah and Massoud Derhally, "Avoiding Political Talk, Saudis and Chinese Build Trade," *New York Times*, Apr 23, 2006, <http://proquest.umi.com/pqdweb?did=1025586671&Fmt=7&clientId=65345&RQT=309&VName=PQD>.

2. Chinese Perspective

China's efforts to develop closer political relations with Saudi Arabia are based on four goals. The two most important goals are driven by the Chinese desire to secure its own energy security.¹⁸⁰ First, China is attempting to ensure it has access to Saudi energy sources in the future in order to meet its energy demands. Secondly, China is also attempting to maintain its diversity in energy sources. As discussed earlier, China's economic growth is heavily dependent on its ability to meet energy demands; however, China also realizes the security implications of becoming heavily reliant on a single source of energy. While China may be limiting the amount of Saudi oil it imports, Saudi Arabia still plays a vital role in maintaining the diversity in Chinese oil supplies (i.e. keeping China from becoming too reliant on Angola and Iran). Thirdly, China is seeking to not only improve its energy security but also to expand its trade markets. As stated earlier, Saudi Arabia has emerged as a major Middle Eastern trading partner for China and it is looking to further expand this relationship. There have been numerous meetings and conferences between Saudi Arabia and China in order to promote more trade and economic cooperation. Lastly, China is looking to protect its economic interests in the Middle East by curtailing U.S. unilateral actions. China feels uncomfortable with the current Middle East environment for two main reasons: (a) the preponderance of U.S. military forces in the region, and (b) the U.S. willingness to take unilateral action. These two reasons are inter-related for obvious reasons. The preponderance of U.S. military forces allows the United States to take unilateral action in the region. There is no denying that China is seeking to curtail U.S. power and influence in order to preserve the status quo in the Middle East which provides China with a steady flow of energy.¹⁸¹ Because the United States views Saudi Arabia as a vital economic and political partner, Saudi Arabia does carry some weight in influencing U.S. policies. By expanding its political and economic relations with Saudi Arabia and increasing the common interests they

¹⁸⁰ Jin Liangxiang, "Energy First: China and the Middle East," *Middle East Quarterly*, <http://www.meforum.org/article/694> (accessed May 17, 2006).; Fandy, *Energy Security: Implications for U.S.-China-Middle East Relations - China Vs U.S.: A View from the Arab Perspective*, 2

¹⁸¹ Fandy, *Energy Security: Implications for U.S.-China-Middle East Relations - China Vs U.S.: A View from the Arab Perspective*, 3.

share, China may be seeking to influence U.S. behavior (and perhaps diminish U.S. influence) through the Sino-Saudi relationship.

3. Arab Perspective

From the Arab perspective, China provides a breath of fresh air. In addition to the obvious economic incentives for closer Sino-Saudi relations, there are numerous other reasons why Saudi Arabia is pursuing closer relations with China. While many Middle Eastern governments, including Saudi Arabia, rely on the United States for their security, they also find it challenging to maintain their close relations with the United States for numerous reasons. The rise of China in the global picture allows Middle Eastern countries a counterweight, if not an alternative, to turn to other than the United States.¹⁸²

Saudi Arabia's close relations with the United States have been a troubling issue for the Saudi royal family. Because of the United States' role in Operation Iraqi Freedom, Israeli-Palestinian issue, and the conflict in Lebanon, the Saudi kingdom has faced both domestic and international criticism for placing its unwillingness to damage Saudi-U.S. relations over Islamic solidarity.¹⁸³ Developing closer political and economic relations with China will allow Saudi Arabia to distance itself from the United States, allowing the Saudi royal family to avoid at least some of the criticism for close Saudi-U.S. relations.

Closer Sino-Saudi ties will not only provide diversification to Saudi economic ties but also to its political ties which may have repercussion on the U.S.-Saudi relations in the future. Close U.S.-Saudi political ties have produced favorable Saudi oil policies for the United States. For instance, shortly after Hurricane Katrina, Saudi Arabia led the drive to convince OPEC members to lower oil prices and increase oil production in order to overcome the loss of oil production from the United States. The Saudi kingdom also widened the discounts on the oil it provided to the United States and other European countries. This Saudi stance was a complete turnaround from its previous stance shortly before Hurricane Katrina.¹⁸⁴ If the Sino-Saudi political and economic relations continue

¹⁸² Fandy, *Energy Security: Implications for U.S.-China-Middle East Relations - China Vs U.S.: A View from the Arab Perspective*, 4.

¹⁸³ Douglas, Nelson and Schwartz, *Fueling the Dragon's Flame: How China's Energy Demands Affects its Relationships in the Middle East*, 19.

¹⁸⁴ Javier Blas, "Saudi Arabia Urges OPEC to Cover Shortfall in Crude," *Financial Times*, <http://www.ft.com/cms/s/6cc09352-1f06-11da-94d5-00000e2511c8.html> (accessed February 28, 2007).

to expand and should the Saudis value that relationship more, it may result in a loss of U.S. power and influence in Saudi Arabia which may mean that the Saudi willingness to accommodate U.S. requests regarding oil policies may be diminished. While the United States still imports over 1.41 million of barrels/day, the Chinese are steadily catching up in terms importing Saudi oil. In 1995, Saudi Arabia was China's 25th largest exporter of oil but in 2007 it will be one of the top five oil suppliers to China.¹⁸⁵ Saudi Arabia has already shown its willingness to accommodate the Chinese interests at the cost of the United States. In 2004, Saudi Arabia cut its oil exports to the United States substantially and instead exported that oil to China.¹⁸⁶ Expanded Sino-Saudi political ties may lead to greater Chinese influence over Saudi oil policies at the cost of U.S. power and influence.

The Saudi royal family also looks at closer Sino-Saudi relations in a favorable light because of China's policy of "non-interference" in a country's internal matters - particularly in terms of its "social system" and "road of development."¹⁸⁷ Unlike the United States, China does not attempt to pressure other governments to adopt democracy, human rights, and other issues. The Saudis view the Sino-Saudi relationship as "no strings attached." Because China does not push democracy or reform, the Saudis feel there are no hidden agendas with the Sino-Saudi relationship and find this aspect of the relationship very appealing when compared to the U.S.-Saudi relationship.¹⁸⁸ As Prince Turki al-Faisal stated in an interview, the Saudis view China as "not necessarily a better friend, but a less complicated friend."¹⁸⁹

¹⁸⁵ Energy Information Administration, "Saudi Arabia: Oil Exports and Shipping," Department of Energy, http://www.eia.doe.gov/emeu/cabs/Saudi_Arabia/OilExports.html (accessed February 28, 2007).

¹⁸⁶ Thom J. Rose, "Saudi Arabia Cuts Oil Sale to U.S., Ups China," *Washington Times*, <http://energybulletin.net/2348.html> (accessed February 25, 2007).

¹⁸⁷ Douglas, Nelson and Schwartz, *Fueling the Dragon's Flame: How China's Energy Demands Affects its Relationships in the Middle East*, 15.

¹⁸⁸ Fattah and Derhally, *Avoiding Political Talk, Saudis and Chinese Build Trade*, 1.

¹⁸⁹ Turki al-Faisal, "World has 'enough' Oil," *USA Today*, sec. A, May 10, 2006, http://www.usatoday.com/news/opinion/editorials/2006-05-09-saudi-prince-forum_x.htm (accessed January 24, 2007).

There are numerous other factors that are pushing Saudi Arabia to develop closer relations with China. First, Muslims do not have a negative perception of China.¹⁹⁰ Due to the fact China is not associated with hegemony, imperialism and domination as the United States and European nations are, Muslims do not view China as a political threat.¹⁹¹ Because of the absence of an anti-Chinese sentiment among the Muslim population in the Middle East, Middle Eastern governments find it easier to develop closer relations with the Chinese over deepening their ties with the United States.¹⁹² Secondly, Muslims have a certain degree of admiration for China. They are impressed with China's explosive economic growth believing that it has occurred without China sacrificing social justice, law and order, or traditional values.¹⁹³

Despite the incentives for closer Sino-Saudi relationship, Saudi Arabia does view China with a certain degree of skepticism. The main reason for this skepticism is China's long and close relations with Iran. President Hu Jintao attempted to address this Saudi concern during his visit to Saudi Arabia in April 2006. President Hu stated that "different civilizations of the region should take a peaceful and magnanimous attitude toward each other's differences," and that "differences should not become the root cause to regional conflicts and contradictions, but should become each other's reference and a force for integration of the region."¹⁹⁴ President Hu seems to be indicating that China does not consider the Sino-Saudi relationship subservient to the Sino-Iranian relationship.¹⁹⁵

¹⁹⁰ The exception to this lack of anti-Chinese sentiments is China's handling of the Uighur population in the Chinese province of Xinjiang. The Uighur population is Muslim and it currently numbers approximately 10 million. Due to economic discontent and nationalistic aspirations, the Uighurs have carried out riots, assassinations, and bombings against the Chinese government since 1996. China accuses the Uighurs of attempting to establish an Islamic Republic of East Turkestan and has carried out repressive measures against them. Xinjiang is a province which is mineral-rich, which China is unwilling to give up. - Rubin, Barry. "China's Middle East Strategy." *Middle East Review of International Affairs* 3, no. 1 (March, 1999), <http://meria.idc.ac.il/journal/1999/issue1/rubin.pdf> (accessed February 28, 2007).

¹⁹¹ Alistair Lyon, "Energy-Hungry China Breaks Ground in the Middle East," Reuters, 1, http://today.reuters.com/news/articlenews.aspx?type=inDepthNews&storyID=2006-11-28T172353Z_01_LYO861377_RTRUKOC_0_US-CHINA-MIDEAST.xml (accessed January 24, 2007).

¹⁹² Ibid., 1

¹⁹³ Ibid., 2.

¹⁹⁴ Douglas, Nelson and Schwartz, *Fueling the Dragon's Flame: How China's Energy Demands Affects its Relationships in the Middle East*, 16.

¹⁹⁵ Ibid.

Even though the Saudis view China with some skepticism, some experts believe that China has already begun balancing of the Sino-Saudi relationship and Sino-Iranian relationship in certain issues. Saudi strategic considerations along with U.S. pressure may have influenced China's actions against Iran over its nuclear program.¹⁹⁶ As stated earlier, Saudi Arabia is not only one of China's main energy suppliers but it also may play a vital role in filling China's strategic oil reserves. Saudi Arabia, as opposed to Iran, has the capability to act as a "swing producer" to produce oil far beyond its OPEC quota.¹⁹⁷ China has already provided Saudi Arabia with privileges other countries do not have in terms of collaboration over the creation of the Chinese strategic oil reserves. In addition to U.S. pressure and the unwillingness to see an armed conflict in the Middle East which would harm Chinese economic interest (i.e. oil flow and Chinese interests in Iran), China's decision to vote against Iran on the UNSC may have also been influenced by the desire to see favorable treatment from Saudi Arabia in matters concerning trade and energy (i.e. the filling of the Chinese strategic oil reserve).¹⁹⁸

4. Summary

In summary, the Chinese and Saudi Arabian motivation to develop closer political relations is motivated for numerous reasons. First, both China and Saudi Arabia feel that closer Sino-Saudi political relations will lead to great economic benefits. China hopes that closer political relations will lead to greater energy access and larger trade markets. Saudi Arabia is hoping that closer political relations will lead to greater Chinese investments and assistance in economic development. Secondly, Saudi Arabia sees a need to diversify its political relations as a result of the rise in criticism of U.S.-Saudi relations. Thirdly, Saudi Arabia is hoping that closer Sino-Saudi relations will affect the Sino-Iranian relationship. As stated earlier, the Saudis would like to see decreased Sino-Iranian military relations. Finally, China is disturbed by the current Middle East environment. China, seeing the preponderance of U.S. military forces in the Middle East and the U.S.'s willingness to take unilateral actions, is seeking greater influence over the future direction of Middle Eastern affairs. Due to the close relations Saudi Arabia has

¹⁹⁶ Bhadrakumar, *China's Middle East Journey Via Jerusalem*.

¹⁹⁷ Ibid.

¹⁹⁸ Ibid.

with the United States, China hopes to limit the United States' ability to act unilaterally through closer Sino-Saudi ties.

While offensive realists may view these actions as China attempting to expand their power and influence in the Middle East at the cost of the United States, China's actions do not fit well in their theory. First, China's political policies are geared towards increasing China's energy security and economic interests. China is not only looking to develop closer Sino-Saudi ties so Saudi Arabia remains a vital long term energy source, but also to keep Chinese energy sources diversified. Secondly, China is also looking to expand its trade market in Saudi Arabia. These two main Chinese objectives are economic in nature, which aligns Chinese actions closer to the economic interdependence model rather than the offensive realism model.

There is no denying that China is looking to curtail U.S. unilateral action in the Middle East region; however, even this intension fits within the economic interdependence model. China is seeking greater influence in the Middle East not because it is seeking to expand its power, but because it desires to protect its economic interests from U.S. unilateral action, which include the survival of the Iranian regime and avoiding any scenario which may disrupt the flow of energy to China. This indicates that China is mainly seeking to avoid armed conflict in order to preserve its economic interests; therefore, China's actions fit more closely along the lines of the economic interdependence model.

E. CONCLUSION

This case study has attempted to decipher Chinese intensions toward Saudi Arabia. The main question it attempted to address was whether Chinese actions were in accordance with the offensive realism model or economic interdependence model. As stated earlier in the chapter, if China is acting in the offensive realism mold, it should be attempting to expand its power and influence in Saudi Arabia at every opportunity with the intent to undermine U.S. hegemony. This would include proactive actions to: (a) provide Saudi Arabia with massive economic assistance and incentives to develop closer Sino-Saudi economic and political ties with the intent to reduce U.S. power and influence, (b) selling Saudi Arabia sophisticated arms and providing security assurances to make Saudi Arabia less dependent on the United States and more so on China, and (c)

encouraging Saudi Arabia to shift their political allegiance from the United States over to China. If China is acting in the economic interdependence mold, it should be: (a) interacting economically with Saudi Arabia in a manner which makes economic sense (i.e. profitable), (b) interacting militarily with Saudi Arabia in a business manner, and not providing it with massive amounts of advanced military hardware with the sole purpose to make it less reliant on the U.S. security assurance and arms sales, and (c) developing a Sino-Saudi political relationship based on furthering their economic interests and not based on degrading the U.S.-Saudi political relationship. This case study has shown that Chinese intentions are more along the lines of the economic interdependence school of thought rather than the offensive realism school of thought.

In the economic realm, China views Saudi Arabia not only as a long term energy source but also as an opportunity to further expand economically - not as a state that it wishes to wrestle away from U.S. power and influence. With respect to the Sino-Saudi economic relationship, China is primarily concerned with four things: (a) securing Saudi Arabian energy sources in order to continue its economic growth over the long term, (b) maintain Saudi Arabia's continued role in providing diversification in Chinese energy sources, (c) expanding its trade market in Saudi Arabia, and (d) taking advantage of various investment opportunities in Saudi Arabia. These four goals are all economic in nature and are not intended to undermine U.S. hegemony in the region. If China was acting in the offensive realism mold, it should be taking advantage of every opportunity to use its economic resources, even if its policies do not make economic sense, towards a political agenda of developing closer Sino-Saudi ties in a manner which decreases U.S. power and influence in Saudi Arabia.

On the contrary, Chinese economic policies toward Saudi Arabia make economic sense and are not political in nature with respect to the international balance of power. China has not arbitrarily invested in Saudi Arabia with the sole purpose to develop closer Sino-Saudi ties. It has also shown an unwillingness to become overly reliant on Saudi oil. It is also interesting that China has not invested heavily in Saudi Arabia despite Saudi Arabia's public desire for more Chinese investments. These actions are not consistent with a state that is aggressively pursuing to expand their power and influence in a region at the cost of the hegemon.

In the military realm, China and Saudi Arabia have not had close relations. There are two primary reasons for this: (a) the United States has provided Saudi Arabia with advanced military equipment to strengthen the Saudi military and National Guard against domestic threats such as the Islamic insurgents, and (b) the United States has provided security assurances to Saudi Arabia against international threats that China cannot provide.

While China may be limited in the military assistance it can provide to Saudi Arabia, if it was acting in the offensive realism mold it should still be attempting to undermine the U.S.-Saudi military ties in order to further the Sino-Saudi military ties. While the Sino-Saudi military relations has the potential to expand in the future (partially as a result of the growing Iranian threat and the Sino-Saudi security agreement signed in April 2006), China and Saudi Arabia have yet to take the first step. The lack of activity in the Sino-Saudi military relationship may be due to the fact that China is content with the situation because U.S. and Chinese interests closely align. From China's perspective, if the United States is obliged to protect Chinese economic interests (Saudi oil) at no cost to the Chinese government, it is in China's interest to maintain that environment. China's behavior in this light would definitely be in line with the economic interdependence model.

China's objectives in the political realm of the Sino-Saudi relationship are also closely aligned with the economic interdependence school of thought for numerous reasons. First, China's political policies are geared towards increasing its energy security. China is looking to develop closer Sino-Saudi ties so Saudi Arabia remains a vital long term energy source and to keep Chinese energy sources diversified. Secondly, China is also looking to expand its trade market in Saudi Arabia. These two main Chinese objectives are economic in nature which aligns Chinese actions closer to the economic interdependence model rather than the offensive realism model. If China was seeking to decrease U.S. hegemony in the Middle East, its objectives in the Sino-Saudi political relationship should not be mainly economic in nature and should be geared towards weakening the U.S.-Saudi political relationship. If China was acting in the offensive realism mold, it should be actively pressuring Saudi Arabia to weaken its political ties to

the United States; thereby increasing the amount of Chinese influence in Saudi Arabia. There has been no indication that China has been taking such actions.

While there is no denying that China is looking to curtail U.S. unilateral action in the Middle East region through a stronger Sino-Saudi political relationship, even this intension fits within the economic interdependence model. China is seeking greater influence in the Middle East not because it wants to expand its powers at the cost of the United States, but because it is seeking to prevent the United States from taking unilateral actions which may damage Chinese economic interests. Any conflict in the Middle East will likely result in increased energy prices and may possibly cause an energy disruption; therefore, China is seeking to avoid that scenario. Additionally, because the most likely conflict in the Middle East would involve the United States and Iran (which the Chinese have vast economic interests as highlighted in the previous chapter), China may be seeking to influence U.S. behavior through the Sino-Saudi relationship in an attempt to avoid any conflict that would involve Iran. This indicates that China is mainly concerned about economic matters and not on balance of power issues; therefore, China's actions fit more closely along the lines of the economic interdependence model.

In summary, great potential exists for Sino-Saudi relations to expand substantially in the future. While each side acknowledges the great potential of this relationship, both sides seem to have barely begun to take the steps to develop a strong Sino-Saudi relationship. This case study has shown that both Sino and Saudi economic interests are the driving force behind the expansion of the Sino-Saudi relationship – and not China's desire to expand its power and influence in the Middle East at the cost of the hegemon. The Sino-Saudi relationship is destined to expand in the future, but it will follow more closely along the lines of the economic interdependence school of thought rather than the offensive realism school of thought.

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V. CONCLUSIONS

A. OVERALL CONCLUSIONS

The Sino-Saudi and Sino-Iranian case studies have illustrated both similarities and differences in the way China approaches Iran and Saudi Arabia. China has approached Iran and Saudi Arabia in different manners. With respect to Iran, China is: (a) providing massive economic assistance to Iran, (b) interacting extensively with Iran on the political realm, and (c) providing China with limited military arms sales. As opposed to the Sino-Iranian relationship, the Sino-Saudi relationship is much more limited in scope. Pertaining to Saudi Arabia, China has: (a) not extensively interacted economically with Saudi Arabia outside of the energy realm, (b) had limited political relations with Saudi Arabia until 2006, and (c) had virtually no military relations with Saudi Arabia since 1990. The differences between Sino-Saudi and Sino-Iranian relations are mainly a result of external factors. While Iran faces a harsh international environment where the United States and other Western powers are attempting to isolate it, Saudi Arabia is supported by the United States. For this reason, the relationship China has with Iran is far more extensive than the Sino-Saudi relationship.

Despite the differing approaches China has taken to develop the Sino-Iranian and Sino-Saudi relationships, China's overall objectives in developing these two relationships are the same. By developing closer relations with Saudi Arabia and Iran, China is seeking to: (a) further enhance Chinese energy security which its continued economic growth is dependent on, and (b) further expand its mutually beneficial economic relations (i.e. trade expansion and other economic opportunities).

In the case of Iran, because China views Iran as a long term energy source and as an opportunity to expand economically, it is taking steps to ensure the survival of the Iranian regime. This case study has shown that while China is providing political, military, and economic support to Iran in order to sustain the regime, it is also cooperating with the United States in order to prevent U.S. unilateral actions which may result in the toppling of the Iranian regime. This is indicated by China's willingness to take actions contrary to Iranian interests which include: (a) referring Iran to the UNSC,

(b) cooperating with the United States in the UNSC to include imposing sanctions on Iran, and (c) publicly and privately warning Iran that China is against the possibility of Iran possessing nuclear weapons. By taking actions to avoid an armed conflict between the United States and Iran, China is seeking to strengthen its energy security in the long term.

Economically, China has made it clear that any economic arrangement it enters in with Iran must be “on the basis of equality and mutual benefit.” This case study has shown that the economic assistance China has provided to Iran makes economic sense on both sides and it is not arbitrarily providing Iran with economic support for political purposes (i.e. strengthening Iran to challenge the United States). China expects this economic relationship to serve its own economic interests as much as it serves Iran’s.

Militarily, the Sino-Iranian case study has shown that China has not provided Iran with massive amounts of sophisticated and advanced military arms. This indicates that China is not looking for Iran to provoke and challenge the United States militarily. Additionally, China has cooperated with the United States regarding limiting its arms sales and preventing the transfer of military technology to Iran. This shows China’s desire to maintain the status quo and avoid any scenario which may pose a threat to Chinese energy security.

When looking at Saudi Arabia, one must realize Saudi Arabia has two vital characteristics Iran does not. First, Saudi Arabia is awash in cash due to being the number one oil producer in the world in an era where energy prices have hit an all-time high. Secondly, Saudi Arabia has strong military relations with a world superpower.

Economically, there is little Sino-Saudi interaction outside of the energy realm. While China does import massive amounts of oil from Saudi Arabia, it has not invested a great amount in Saudi Arabia. While there is great potential for the Sino-Saudi relationship to expand in this area (particularly after they signed a number of cooperation agreements to better foster trade, investment, and technical matters), both countries are taking their time developing these relations. Instead, China is content with focusing on Sino-Saudi energy matters and improving Chinese energy security.

Militarily, China has not had strong relations with Saudi Arabia. This is most likely due to the fact Saudi Arabia has strong military relations with the United States. Additionally, since China views Saudi Arabia as a long term energy source, its interests fall in line with U.S. interests regarding Saudi Arabia. Both the United States and China view Saudi Arabia as a vital energy source and both want the preservation of the Saudi royal family and stability and security within Saudi Arabia. In this case, China is content with the current U.S.-Saudi military relationship. If the United States is obliged to protect Saudi Arabia, and thereby a vital Chinese energy source, China realizes that the situation is beneficial because Saudi Arabia's security is ensured without it having to use any of its economic resources.

Politically, China has geared its policies in Saudi Arabia towards addressing its energy security. China's policies have grown politically closer to Saudi Arabia in order to: (a) ensure access to future energy supplies, and (b) to maintain Saudi Arabia's role in keeping Chinese energy sources diversified. Additionally, China is possibly looking to Saudi Arabia to influence the United States in curtailing U.S. unilateral action. China views U.S. unilateral action (particularly towards Iran) as the greatest threat to Chinese economic interests in the Middle East and therefore is seeking to avoid that scenario.

The two case studies have shown that China's policies in the Middle East is not geared towards expanding its power and influence at every opportunity in order to challenge the hegemon as the offensive realism model would predict. Instead, China is seeking to maintain the status quo which is allowing the Chinese economy to grow at an astonishing rate and to protect its economic interests in the Middle East. These two goals are highly dependent on: (a) avoiding a disruption in energy flow from the Middle East as a result of an armed conflict, (b) maintaining good Sino-Saudi and Sino-U.S. relations while seeking the survival of the Iranian regime, and (c) maintaining its economic expansion in the Middle East. Because China's actions are geared towards fulfilling those three economic goals which are not intended to undermine U.S. hegemony, its actions are closer to the economic interdependence model.

B. POLICY OPTIONS ANALYSIS

The case studies have shown the complexity of China's expansion into the Middle East. The challenging environment the United States now faces in the Middle East is not

only the result of various geopolitical events (i.e., Operation Iraqi Freedom), but also due to China's growing power and influence in the Middle East. There is no question that China's connection to the Middle East will make it more challenging for the United States to successfully pursue its objectives and follow through with unilateral action.

In this geopolitical environment where China is acting in the economic interdependence mold, there are numerous options that the United States can pursue regarding the Sino-U.S. relationship involving the Middle East: (a) view China as a rising competitor and work against Chinese interests in the Middle East in order to preserve U.S. hegemony, (b) maintain the status quo and pursue U.S. objectives in the Middle East while refusing to acknowledge or take into account Chinese interests, or (c) develop closer Sino-U.S. ties so that greater Sino-U.S. cooperation can occur in matters pertaining to the Middle East and energy security.

The first option would be an attempt to preserve and expand U.S. power and influence in the Middle East which many Americans would likely desire. Additionally, if the United States is able to minimize Chinese power and influence in the Middle East, it may give the United States more freedom to pursue its objectives and increase the likelihood of success for U.S. policies in the Middle East. As much as the United States desires to maintain the power and influence it has in the Middle East, this option of considering China as a rising threat and taking actions to undermine it does not seem to be successfully attainable for numerous reasons.

First, China is already heavily connected economically to numerous Middle Eastern countries and the United States will not be able to exclude China from the region. Even if the United States attempts to persuade its Middle Eastern allies to isolate China, the likelihood that they would abide by the U.S. request is very minimal. The Middle Eastern states have too much to gain from maintaining good Sino-Middle East relations and would likely push aside U.S. requests to minimize that relationship. Secondly, taking overt actions to limit Chinese influence in the Middle East will likely yield more anti-American sentiments not only in the Middle East, but also with states throughout the world. In this globalized world, China has strong economic ties with countries throughout the world (including U.S. allies) and as a result there could be a global backlash against

the United States. Additionally, the population and governments in the Middle East would most likely view the United States behaving in an imperialistic manner which would degrade U.S. power and influence in the Middle East. Thirdly, China's economy is closely connected to the United States economy as a result of the globalized economy. The U.S. Treasury Secretary Henry Paulson recently conceded that "the prosperity of the United States and China is tied together in the global economy, and how we work together on a host of bilateral and multilateral issues will have a significant impact on the health of the global economy."¹⁹⁹ Should China's economy falter due to economic challenges (i.e. lack of energy sources), it will likely have a devastating effect on the U.S. economy. In this scenario, it would not be beneficial to the United States to actively undermine Chinese interests. Fourth, China will likely take retaliatory actions in all realms. Military hostilities will undoubtedly increase between the two countries and may even result in conflict. Additionally, with China possessing over one trillion dollars of U.S. currency, it has an economic weapon that could have devastating impacts on the U.S. economy. These factors do not make this option appealing, much less the most beneficial course of action to take regarding Sino-U.S. relations involving the Middle East.

Much like the first option, the second option of maintaining the status quo and pursuing U.S. objectives regardless of Chinese interests is an attempt for the United States to maintain the freedom it has in pursuing its objectives in the Middle East. While the United States may be able to pursue its policies in the Middle East without cooperating with China, whether the pursuit of those policies will be successful is another matter. First, China has demonstrated over the last few years that it can successfully cause problems for the United States and its policies in international institutions. China is a veto wielding member of the UNSC and that role has frustrated U.S. efforts over the Iranian nuclear crisis. Secondly, if China feels that U.S. policies act against Chinese interests, it can undermine U.S. actions in numerous ways. The Sino-Iranian case study has shown that China will not hesitate to use its economic, political, and military means to further its objectives and undermine U.S. policies.

¹⁹⁹ Michael A. Needham, Tim Kane and John J. Tkacik, "Preparing for the U.S.-China Strategic Economic Dialogue," The Heritage Foundation, <http://www.heritage.org/Research/AsiaandthePacific/wm1276.cfm> (accessed March 1, 2007).

The third option to develop closer relations with China to cooperate in Middle Eastern and energy security matters will likely yield the most benefits for both the United States and China. In the current environment where Middle Eastern countries now have two major powers vying for energy resources which allows them to balance one relationship off the other to further their interests, the United States is best served to approach the Middle East in a more multilateral way. As stated earlier, attempting to minimize or overlook Chinese influence in the Middle East will only pose more challenges to the United States in the pursuit of its objectives. China has shown that it can successfully act as an obstacle in the UNSC against the United States and has also shown that its political, economic, and military policies can undermine U.S. policies. In this environment, the United States should work more closely with China in Middle Eastern affairs in order to increase the likelihood that its policies will succeed.

The case studies have shown that Chinese actions are more closely linked to the economic interdependence theory of international relations; therefore, it may be possible to increase Sino-U.S. cooperation as long as each side acknowledges and respects each other's economic and national interests. China is not determined to undermine U.S. objectives in the Middle East as long as it does not feel its economic interests are threatened. The case studies have illustrated that China has shown the willingness to cooperate with the United States as long as a mutual dialogue exists and the United States makes the effort to convince the Chinese its policies are mutually beneficial. We have seen this in China's stance on the Iranian nuclear crisis. While it is in China's economic interest to see a strong Iranian regime that can provide it long term energy, China has gradually weakened its support for Iran culminating in its January 2006 U.N. vote to refer Iran to the UNSC and its December 2006 U.N. vote to impose sanctions against Iran. The change in the Chinese stance is because they realize that the proliferation of nuclear weapons is not beneficial for China and is also counterproductive towards Middle East stability and security.

In the political realm, the United States should seek to establish a direct dialogue with China over its regional activities. While the transaction costs²⁰⁰ of this approach will

²⁰⁰ Transaction costs: Non-monetary costs incurred through a transaction (i.e., time and effort).

be higher due to the United States having to take the time and make the effort to ensure China understands the U.S. objectives and intentions, the likelihood of success for U.S. policies will increase dramatically if the United States can convince China to support it. When taking this approach, it is vital for the United States to convince China that U.S. policies are not seeking to hinder China's development and economic rise.

The United States must also convince China that each side must cooperate with the other in a mutually beneficial way in order to promote Middle Eastern regional stability and security, which is in the interests of both states. Only through dialogue, cooperation, and by drawing China into the discussion table regarding Middle Eastern affairs can the United States develop China's trust and persuade it that some of its Middle Eastern regional activities (i.e., supporting Iran which provides arms and money to terrorist groups like Hezbollah which promote regional instability) is not in its own long term economic interests. Additionally, the United States should pursue closer cooperation with China in WMD and missile technology nonproliferation efforts.

In the economic and energy security realm, the United States must cooperate more closely with China regarding China's pursuit for energy security. More dialogue must take place to convince China that its pursuit of oil equity deals may not only be inefficient, but also harmful to global interests. China's willingness to overpay for energy through these oil equity deals has served to distort global energy prices. In order to foster more Sino-U.S. dialogue on energy security and to coordinate international energy security policies with China's policies, the United States should support China's admission into the International Energy Agency (IEA). As long as China is not part of the IEA, Chinese energy security policies may continue to pose a challenge to the western nations' efforts on energy security.²⁰¹ The United States should also continue to engage China through multilateral organizations such as the Energy Working Group of the Asia-Pacific Economic Cooperation (APEC) forum and the Asia-Pacific Partnership for Clean Development and Climate.

There is no question that it will be challenging, and perhaps may be impossible for dialogue alone to improve Sino-U.S. cooperation. Both sides view the other side with

²⁰¹ Leverett and Bader, *Managing China-U.S. Energy Competition in the Middle East*, 198.

skepticism. In both Washington and Beijing, there are people who view the other side as potential enemies. In order for both the United States and China to overcome this mistrust of each other, other actions must be taken. On the U.S. side, there are numerous steps it can take to foster more trust. First, the United States could assure China that the United States, short of a Sino-U.S. armed conflict, will keep the Persian Gulf-China sea lanes of communication open. This pledge may increase China's trust it has in the United States and also its willingness to cooperate with the United States. Secondly, the United States should cooperate with China in the fields of: (a) energy efficiency and conservation, (b) energy and air pollution, and (c) development of alternative energy (to include nuclear energy). Undeniably, there are challenges in this area due to U.S. companies' concerns regarding China respecting intellectual property rights. If the United States and China are able to work through the intellectual property rights issue and U.S. companies share energy efficiency and alternative energy technologies with China, there is great potential for China to reduce its energy security concerns and may also increase the trust it has in the United States.²⁰² The less concern China has regarding its energy security, the less likely it will continue its aggressive behavior in the global energy realm which would be greatly beneficial for the global energy market.

Militarily, the United States and China could develop closer Sino-U.S. military ties to foster more trust and cooperation. Currently, the U.S. and Chinese militaries view each other with deep mistrust and skepticism regarding each other's intentions. Increasing dialogue in the military sphere and also increasing Sino-U.S. military interaction could foster more trust from the Chinese and lead to more cooperation not only within but also outside the military sphere.

Many policy makers in Washington may be against this option because closer coordination between the United States and China will force the United States to acknowledge Chinese economic, military, and political interests. These policy makers may view this as a decrease in U.S. power and influence in the Middle East, which may be the case. But the other options would likely cause an even larger decline in U.S. power and influence. Working against or ignoring Chinese interests will only embolden China

²⁰² Leverett and Bader, *Managing China-U.S. Energy Competition in the Middle East*, 197.

to undermine U.S. efforts in the Middle East even further. While some people may believe that it may not be possible for China and the United States to work together, there are indications that state otherwise. China and the United States have shown that they can work together towards mutual objectives with their handling of the North Korean nuclear crisis. Through intensive dialogue and cooperation, China and the United States were able to diffuse the North Korean nuclear crisis peacefully. Additionally, China has already stated its desires to work with the United States on energy security.²⁰³ The foundation to increase Sino-U.S. dialogue and cooperation exists. The question is whether the United States and China will take advantage of the situation. If China and the United States can develop a relationship of mutual trust and understanding, the two countries will likely yield immense benefits.

²⁰³ Andrew Yeh, "China 'Ready' for Energy Cooperation with U.S." *Financial Times*, <http://www.ft.com/cms/s/e67ad428-b5a6-11da-9cbb-0000779e2340.html> (accessed March 3, 2007).

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